# LINK '92: THE EXPERIENCE OF SUCCESSFUL CANADIAN

1992

CANADA EUROPE

External Affairs and International Trade Canada

Canada

# Link '92

## The Experience of Successful

## Canadian Companies in Europe

**United Kingdom – France – Germany – The Netherlands**

**A Report Prepared by QDM Ltd.**

**for**

**The Government of Canada**

**November 1991**

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# From the Government of Canada

External Affairs and International Trade Canada (EAITC) is pleased to offer Canadian industry, as part of the Going Global trade strategy, this study on market access and the European business environment.

Europe 1992 is happening now. The European Community's ambitious Single Market program has already dramatically changed the way Europeans are doing business. The process is irreversible; the pace is rapid and accelerating. If Canadian businesses are to profit from the opportunities that this enormous market will bring, they must be well informed.

That is one of the responsibilities that EAITC assumes. This publication, drawing from the experience of successful Canadian firms, is a practical guide to the issue of market access and the business environment in four European countries; the United Kingdom, France, Germany and the Netherlands.

We also have tangible programs to introduce you to the European market. These are well-publicized through our CanadExport publications. Our trade officers in the European Community Division of EAITC and at the International Trade Centres in each province would be pleased to respond to your specific questions. Take advantage of these programs. They have been established to benefit you.

Publications that are currently available from the series *1992 Implications of a Single European Market* include: Agriculture and Food Products; Telecommunications and Computers; Automotive Industry; Minerals and Metals; Forest Products; Defence, Aerospace and Transportation; Specialty Chemical Products, New Materials, Pharmaceuticals and Biotechnology; Industrial Products and Services; Financial Services; Fisheries Products; and Professional and Consulting Services – Law and Accounting.

A second set of reports focusing on specific subsectors – ocean industry, environmental industries, software, telecommunications products and services, and value-added wood products will be released during the fall of 1991 and into the spring of 1992.

Other reports include European Economic and Monetary Union; Company Law; Competition Policy; Standards; Freight Forwarding; 1992 and Related Issues; Intellectual Property; and Moving into Europe – Strategic Partnering.

For more information on publications available, please contact the EAITC InfoExport hotline, 1-800-267-8376.

# Preface

This is not another theoretical report on the slow but steady progress toward the Single European Market. This is a practical document that draws lessons from the experience of Canadian companies that have successfully established themselves in European markets. It is addressed to Canadian companies on the threshold of international expansion and offers them the opportunity to learn from the experience of those who have preceded them. The views expressed are those of the companies interviewed.

The following companies generously shared their experience and lessons learned when setting up and doing business in Europe.

- Alcan
- ANF (Ateliers Nord France)
- Arlink
- Bank of Montreal
- Bata
- Bombardier
- Bomem
- CAE Electronics
- Canadair
- Canadian Astronautics
- Canadian National Railways
- Canspect
- Cascades
- CCL Industries
- Com Dev
- Eicon Technology Corporation
- Labatt
- Lawson Mardon Group
- Lumonics
- McCain
- Matrox Electronic Systems
- Mobile Data International
- Moore Corporation
- Newbridge Networks
- Noranda
- Northern Telecom
- Ogilvie Mills
- Ogivar
- Periphlex Products
- Romet
- Royal Bank of Canada
- Trench Electric
- Vidéotron
- Voortman Cookies

The High Commission in London and the commercial sections of the Canadian embassies in Paris, Bonn and The Hague gave valuable assistance in the organization of the interviews, as well as in reviewing the materials.

# Key Conclusions

- Opportunities in Europe are plentiful for Canadian companies that have new products to sell or can improve existing financial and management controls in their European subsidiaries.
- The opening of Eastern Europe makes the region even more attractive for overall market size and new opportunities.
- Europe is not a homogeneous market. Every country in Europe has different market parameters. Give careful consideration about which country to start in and how to grow from this first entry point.
- Building a European base can take longer than you expect. Be patient and persevere.
- Although close in many respects to Canada, U.K. customs, markets and business practices are not identical. Most of the companies interviewed found the use of local nationals invaluable in bridging the culture gap.
- Don't hold the reins too tightly. Balance the need for control with the necessity for local managers to have reasonable autonomy.
- Pay thorough attention to integrating European staff into your organization and company culture. Even relatively modest 'cross-fertilization' programs have been found to be very effective, as well as morale-boosting.

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# 1. Why Did They Cross the Atlantic?

Each company had its own set of reasons for going overseas. The most important influences were:

**Dissatisfaction with agents.** This was particularly the case for high-tech companies with products that must be or are required to be sold by people with technical expertise.

**To find new markets for innovative products.** Some found that selling innovations in Europe helped amortise the sunk costs very quickly.

**1992 effect.** Some companies believed in the possibility of a 'Fortress Europe', and wanted to secure a seat before it is too late.

**To oversee distribution of products.** Some felt the need for providing technical and marketing assistance to their existing network of agents.

**To exploit cross-marketing opportunities.** Some companies found the European counterpart to their company – one with products that perfectly complement their range.

**To export proprietary knowledge in a high national interest sector.** In industries such as defence, it is almost impossible to export your Canadian production unless governments perceive your company as a 'local' player.

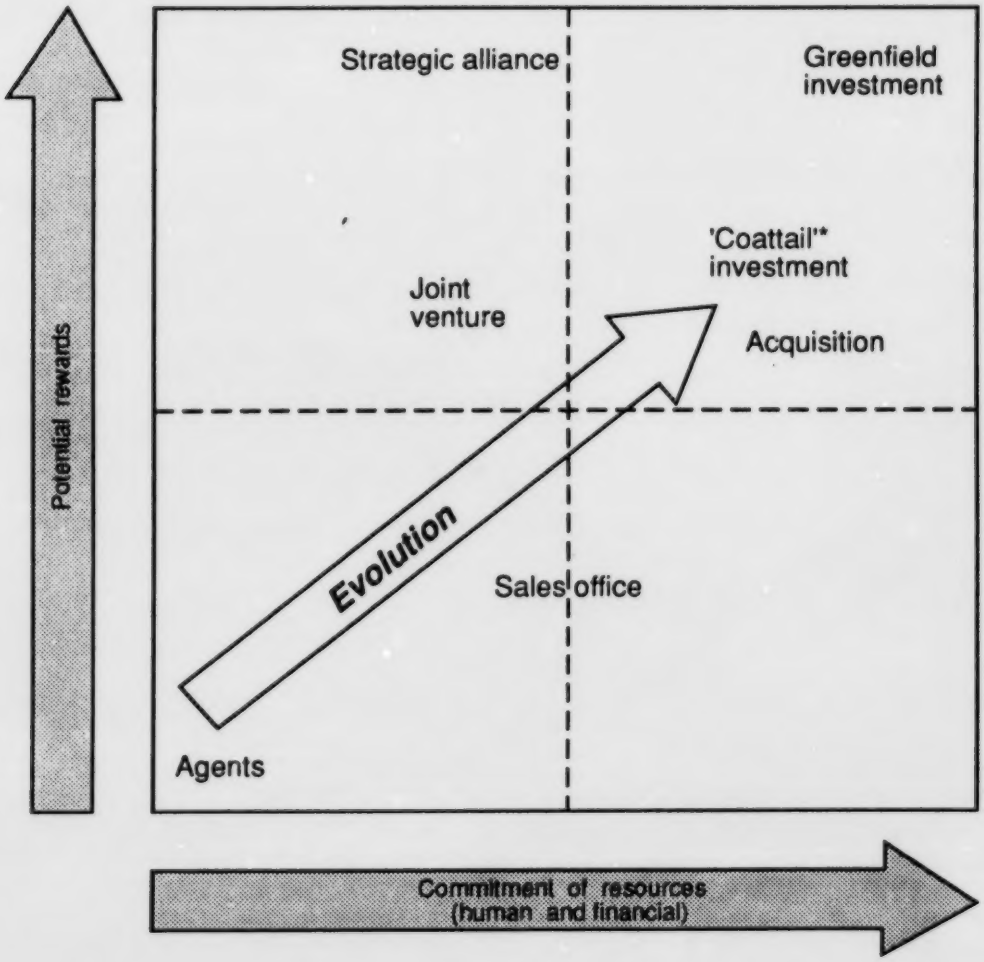
**To escape constraints on growth in the domestic market.** Some companies wanted ready access to Europe's almost 375 million customers.

**To capitalize on an existing opportunity.** Some companies decided to set up in Europe after having been offered an attractive deal. However, they did not try to widen their activities in Europe beforehand.

# 2. Choosing an Entry Route

There are many routes to enter the European market – seven were used by the companies studied. These routes offer different degrees of financial and human commitment, and potential rewards (other factors being equal), as indicated on the matrix below.

Some companies used agents to test the acceptance of their products in the market, thus assuming a low risk. Their presence then evolved through a sales office, and perhaps a joint venture. The choice of market entry route should be thought of as a dynamic rather than a static process. Thus when choosing the first step, keep in mind the potential evolution.




*'Coattail' investment: regular suppliers of Canadian organizations following their clients to Europe.

The most appropriate entry route for your company depends on the characteristics of your sector, your financial constraints and your company's organizational skills. According to the companies interviewed, each route has its intrinsic advantages and disadvantages. Some of the perceived advantages and disadvantages of each option are listed below.

## Pros and Cons of Entry Routes Chosen

### Agents

| PROs | CONs |
|---|---|
| Simplicity: no responsibilities, no investment, no recruitment, no office to set up, etc. | Reduced profits because of the commission you must pay. |
| Easy way to test acceptance of your products in a new market. | Unless exclusivity deal, agents not as keen as you on selling your product, if other lines held offer higher margins. |
| | In many cases, agents do not have the knowledge and expertise to sell high-tech products. |

### Sales Office

| PROs | CONs |
|---|---|
| Good way to become familiar with unknown market. | Potential transportation and customs clearance problems. |
| Allows expansion from single country base into other European countries for products where transportation costs are low and buyers don't require just-in-time delivery. | |
| Gives more control on sales than with an agent. | |

## Strategic Alliance

| PROs | CONs |
| --- | --- |
| Gives quick and easy access to unknown and sometimes close, market. | Much uncertainty because of looseness of the agreement. |
| Good way to get to know a company before forging a more formal partnership. | Risks of being spied on by your partner. |

## Joint Venture

| PROs | CONs |
| --- | --- |
| Allows exploitation of synergies. | Possible clash of cultures. |
| Decreases risks of market entry into a new market or sector. | Not as much control as with an independent operation. |
| Efficient way to learn other management methods. | |

## Coattail Investment

| PROs | CONs |
| --- | --- |
| Secured sales, 'bread and butter' business. | Heavy dependence on one client. |
| Possibility to explore the market around you. | |

## Acquisition

| PROs | CONs |
| --- | --- |
| Reduces much of the uncertainty linked to setting up greenfield operation in a foreign country. | You buy everything: the good and the bad aspects of the company. |
| Allows immediate gain of market share and of goodwill. | Considerable time must be spent on adapting the acquisition to parent company's management style and culture. |
| Quick way to break into a market with established players and high barriers to entry. | |

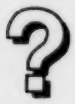
## Greenfield Investment

| PROs | CONs |
| --- | --- |
| Possibility to start with newest equipment technology. | Need to find your own customers, suppliers and employees in an unknown environment. |
| Complete freedom over location. | Not as much control as with an independent operation. |
| Possibility to make a fresh start on corporate image. | |

# 3. Avoiding Potential Pitfalls

Below are some of the potential difficulties you may encounter, together with Canadian companies' views on how to avoid or overcome them.

## Devising Your Entry Strategy and Tactics



How do I decide on the base country for my overseas activities?

Compare a number of countries on a 10-point scale using factors such as:

- ease of acquisition;
- ease of repatriating money;
- taxation level;
- communications and transport facilities;
- quality of labour force; and
- government incentives availability (should be treated as a balancing factor between equal options).

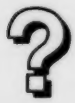
The United Kingdom offers the advantage of a similar language and culture, but will not be representative of other European markets. The insularity of the United Kingdom is reflected in the fact that most industries are structured differently in the United Kingdom than on the Continent.

France is a welcoming country for French Canadians and is also used as a base to market to Southern Europe and francophone Africa. However, business practices are very different compared with North America.

Germany is generally a difficult market to enter because of intrinsic rigidities in business practices. Once established in Germany, however, a market position is well rewarded and relatively secure. Germany is also at the door of Eastern Europe. A number of companies use Germany as a base to market to the Middle East.

The Netherlands is often chosen as a European warehousing and distribution centre. French and German markets can be easily served from the Netherlands.

Having decided on your entry point, keep in mind the next steps of establishing your presence in Europe.



How do I get to know the markets?

Start by consulting a trade commissioner. The overseas trade offices were very useful in giving advice on the lay of the land.

If you do your own market study, send top-level people from the parent company who can focus on key information more quickly and more efficiently.

If you use external consultants, make sure they understand your objectives and requirements clearly from the start.

Take full advantage of the information you can get through trade associations, the experience of your peers and trade magazines. In the United Kingdom and the Netherlands you will find market and company data easily. This is not true in the rest of Europe, where you will have to rely more on talking to people in the industry.

If you go for the acquisition process, use the full knowledge and experience of existing staff.

Survey all European countries, not just one. Conditions could be very different next door. You might also be able to identify scale factors across Europe for your product.

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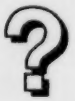

How do I protect my products?

It is best to register your trademarks in each country in which you trade. Currently, patent protection may be applied for nationally or through the European Patent Convention to which all European Community (EC) member states adhere, except Denmark, Portugal and Ireland. A Community-wide patent convention will be established in the near future.

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How do I get product standards certification?

Compared with North America, the process of testing and certification is slow and expensive. Furthermore, most sectors still have different procedures and standards requiring individual application to every country.

EC directives usually outline only essential requirements for health, safety and environmental protection. In the absence of European standards, there is mutual recognition of national standards between member states. The task of writing these detailed European standards has been given to European bodies such as CEN (European committee for standardization), CENELEC (European committee for electrotechnical standardization) and ETSI (European telecommunications institute), whose progress has been slower than originally intended. The EC is also moving toward mutual recognition of member states testing and certification procedures. Canada is studying a similar arrangement with the EC.

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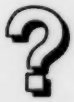

**How do I select an agent to assess the market?**

Look for someone who is dedicated, offering good technical support and operating in the same markets (size is not always a relevant criterion).

Attend trade shows to make initial contacts.

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**How do I decrease the risks associated with a joint venture agreement with an unknown partner?**

Strictly define the terms of business.

Both companies must share the same views on how to value a business.

The joint venture's management must have real authority of its own.

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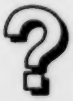

**When considering the acquisition process, how do I minimize the risks of choosing a lame duck?**

Formulate very strict financial objectives by which to evaluate the company or companies.

Don't overlook soft issues such as morale of key staff, motivations of seller, political background and environmental liabilities.

Do a thorough due diligence search.

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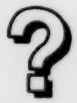


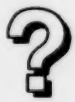
If the best solution is a greenfield factory with a coattail arrangement, how do I reduce the possibility of my partner abandoning me?

Minimize the risks through a formal agreement with your customer to secure enough orders to pay back the investment.

Ensure you don't get tied up in an exclusive supply agreement.

Start looking for new customers immediately.

## Designing an Effective Working Relationship between Headquarters and the European Operation



How do I make sure that overseas management will share my values, and will understand my management style?

Recruit people with experience working in multinational companies. Hire people trained in North American business techniques.

For the existing workforce, cross-fertilization programs can be useful. But they might not be willing to work the way you do and will never completely adapt to your style anyway. At least establish where the differences lie so you can manage them.

Bring head office people (right-hand people) over to supervise overall functioning, but only if they speak the local language. Otherwise, you must delegate to a local manager.

How do I reconcile the need for control with the need for local initiative?

Establish rigorous financial control and reporting systems, but leave marketing initiatives to the local management.

Establish clear lines of responsibility. Either have your own manager who can operate on the local market or delegate heavily to a local manager. Having a dual leadership composed of a local manager and a manager from headquarters does not work.

Pay close attention to recruitment, to find people who can cope with uncertainty.

How do I maintain efficient communications between the parent company and European subsidiary?

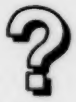
- Have a fax.
- Be prepared to pay large phone bills.
- Prepare your European managers for the need to stay late at the office.
- Set up regular face-to-face meetings.

Don't hesitate to jump on a plane to solve a problem. And make the Europeans feel that they too can come as often as needed to headquarters. Be prepared for heavy transatlantic travel costs.

Some companies have found it useful to have dedicated staff on both sides of the Atlantic ensuring smooth communications. Staff should be prepared to work the hours of the other side.

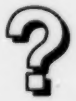
Don't underestimate the need of your European team for encouragement and advice (especially if they are on their own).

## Other Suggestions



How do I minimize the taxation load and legal complications?

Right from the beginning, get advice from international auditors who know international taxation laws. They may be more expensive than a smaller accounting firm, but the benefits more than offset the additional charges.

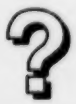


How do I reduce the financial strains on the parent company?

Get secured sales before committing money and time.

Start exploring one market on a very small scale (one person, one telephone). However, this solution may be inappropriate for certain industries where a larger scale presence is required from the beginning.

Beware of higher employment costs and rigidity in Europe because of protective laws. Laying off staff can be very costly and may require authorization from the local government.



How do I avoid the mistake of treating Europe as a homogeneous market?

Establish a sales network using a mixture of locals and your own people, before committing yourself to more substantial investment.

Don't assume that the same products will sell in all European countries.

Be open to using various marketing methods and messages in different countries.

Although the European Economic Community Treaty has established free movement of goods, customs formalities still exist. High-tech sectors can be particularly time consuming.

How do I avoid the pitfalls of considering the United Kingdom as a quasi-North American market?

Remember that despite common language and historical links, business practices and cultural norms are not identical.

Hire a national with experience in the market.

Do an extensive market study beforehand.

Draw on the advice and experience of trade commissioners. They have probably seen cases similar to your own.

How do I minimize language problems?

You can't – unless you stick to the United Kingdom and the Netherlands.

Hire managers who have worked on both sides of the Atlantic.

Have a budget for language training for the key people involved.

How do I manage exchange rate fluctuations?

Hedge the transaction or take out insurance to cover currency risk.

Accept contracts in European currency units, more commonly called ECUs.

How do I deal with protectionism?

If it is a problem in your sector, try to appear as local as possible by employing nationals.

In case of contested acquisition, try to preempt the problem by taking the initiative: present the issue favourably through a good public relations and lobbying agency. Canadian posts and trade commissioners will also help you negotiate with the local administration.

# 4. Comparisons of Key Lessons from Each Country

## Doing Business in the United Kingdom

**Canadians are viewed positively.** The British have a very positive view of Canada. Canadians are seen as having the straightforwardness of North Americans, but not the brashness of Americans. Nevertheless, the image held can be a little dated, as demonstrated by the use of Mounties and lumberjacks in advertisements for Canadian products.

**Some British people underestimate Canada's ties with the United Kingdom.** Some of those who are more familiar with the modern industrial Canada, and who know how highly integrated the Canadian economy is with that of the United States, can exaggerate the similarities of the U.S. and Canadian business and social cultures, and underestimate the links and similarities with the United Kingdom. In particular, Canadian legal and business cultures are much closer to the British cultures than to those of any other European country. To that extent, it can be easier for Canadian companies to establish their corporate culture in a subsidiary based in the United Kingdom rather than elsewhere in Europe. Similarly, management and other systems may frequently be transferable.

**Overstating the similarities can lead to problems.** Some difficulties can arise if national or cultural differences are ignored. While rarely serious, differences in syntax or vocabulary can lead to misunderstandings or failure to communicate effectively. The sense of humour may differ, and Canadians can be thought flippant or too familiar. One result is that advertising and communications campaigns may need to be adapted to the U.K. market. Finally, Canadian headquarters should remember that the time difference can impose some strains if U.K. staff are regularly required to work in the evening.

**Differences in business practices should be allowed.** Canadian companies establishing and developing a subsidiary in the United Kingdom must acknowledge the following differences:

- staff terms and conditions differ, and staff have different expectations. In particular, holidays are longer in the United Kingdom than in Canada, and fringe benefits are more generous. On the other hand, salaries are lower than in Canada;
- planning and building rules are more strict in the United Kingdom and formalities take longer to sort out; and
- decision-making and management change are slower, whether getting a buyer to commit, or changing attitudes among blue or white collar employees.

**Britain's free trade tradition can be an advantage.** Like Canada, Britain has a long tradition of free trade policy. While its membership in the EC leads to the application of tariffs and quotas as in other countries, Britain is usually at the liberal end of the argument, and this can be helpful to Canadian companies that want to establish a subsidiary that can trade throughout the Community.

# Doing Business in France

**Canada has a positive image.** Canada benefits from a very positive image in France. Canadians are perceived as more human in business relations than Americans. Quebec enjoys a romantic image and Québécois are always very welcome as long lost cousins coming back home. The French tend to view Canada as Quebec and often forget that Canadians may not speak French, and are North American in their lifestyle.

**Remember, the French are patriotic.** Foreign companies are often concerned by the protectionist attitudes in France. North American companies are more easily the targets of criticism, especially those that operate in sectors considered strategic. Canadians may be surprised by the range of sectors, such as paper manufacturing, that can be defined as strategic to justify some protection from imports or foreign investment. The media may be quick to latch onto a foreign company making redundancies, but buyers are not too influenced by 'buy French' arguments.

**The ability to speak French is a must.** Knowledge of languages is not very widespread. As a result, one must speak French to do business in France.

**Personal relations are more formal than in Canada.** The informal address *tu* and first names must be used with great caution. Judging when to start using these informal modes of address is an art that even French people find difficult. The best way to judge is to observe the way people talk to each other in a given environment. Inappropriate use of *tu* might irritate somebody who feels somehow superior or deserving of respect. It might also mislead French colleagues as they would take it as a special mark of affection and might be disappointed that it is not the case.

Another aspect of the formality of relations is the strong sense of hierarchy that prevails in most French companies. As a Canadian manager, keep in mind the restraint that staff have when talking to you. It is difficult to implement a true open door policy in a French firm.

Formality is also reflected in the way people greet each other. One must always greet people with a handshake. A manager arriving in the morning and crossing an office might have to shake the hands of 20 people before sitting down. If this is not done, employees will think the manager is either rude or cross.

Although colleagues can become personal friends, it will be a long time before French colleagues invite their Canadian counterparts to their homes. When they do, the invitation will be very formal. It is quite common for a first invitation to be to a restaurant, rather than the home, and foreigners should not interpret this as lack of friendliness.

**But business relationships are less formal than in Canada.** Surprisingly, although relations with people are generally formal, the contractual environment is rather casual. Oral agreements are perfectly valid and common practice. Even with written contracts if there is a problem, a solution will be sought outside court. When matters arrive before the court, the magistrates still encourage a settlement outside court.

**Don't forget the French are individualistic.** The French are not natural team players. The educational system is geared to promoting individual achievement and respect for hierarchy. This reflects the way management information and decision-making systems are devised in French companies. It can be very difficult for a Canadian newcomer to impose a North American consultative team practice.

**The discipline of the 'bottom line' may be new to some French business managers.** French companies tend to be much more product oriented than Canadian companies and tend to give less attention to financial control. For example, many Canadian companies are surprised to find out that their

French partners are using standard costs (costs averaged over a period of time and sometimes not including a full allocation of overheads) instead of real costs. Again, this is related to the education system, which sends the brightest minds to engineering schools rather than to a financial education. Also, management pride will often be set on a new technological development without any consideration of its profitability. The French attraction to prestigious *grands projets* in the public sector is widely understood abroad, but the phenomenon is also evident in private companies. Although French executives complain about the extra work, when Canadian parent companies impose stricter financial control, the executives generally appreciate the benefit of having more precise decision-making tools. The only friction is in the perceived short-term of financial return requirements, a feature associated in France with North American business philosophy.

**Experience has been mixed in implementing new financial controls.** Acquisition is a favoured route to market entry in Europe, but Canadian acquirers must be able to implement their financial controls in the new French subsidiaries. Experience with the method used has been mixed. Some Canadian acquirers have chosen a soft route, introducing the new controls gradually. In this way, they hope to preserve the sensitivities of the local management and ensure better acceptance of the new measures. Other Canadian acquirers have chosen to implement new management information systems in a block without any transition period. The reasoning is that a half-implemented system is bound to have failures and is therefore an easy target for criticism from the local management. Training is always an important part of introducing new controls. Whichever method has been used to introduce new controls, they have been successfully accepted by French management. In conclusion, the best method of introduction depends on the internal culture of the Canadian acquirer rather than on peculiarities of French business culture.

**Canadian products may need to be adapted to the French market.** The fact that French industry is more product oriented means that overall specifications are more precise, more expensively engineered, and more design oriented. Products are often designed for a longer life cycle than in North America. Canadian companies must be able to adapt their products to these new demands but can also gain from their association with French companies.

**Employment practices are more restrictive.** Canadian companies should not forget that France has a very elaborate and expensive set of rules on the social protection of employees. The obligations of employers are so onerous that many Canadian parent companies simply do not believe their French subsidiaries when they are told of the rights and demands of employees, even after years of establishment in France. Canadian parent companies sometimes try to find a way out of these rules, but there is no way out. The French administration does not negotiate.

**But French management is flexible.** While extensive employee rights may seem restrictive, French management is mobile and will accept travelling extensively and stay abroad if needed. Similarly, French agents readily travel to visit the manufacturers of the products they sell and report on the market.

**A good meal is an essential ingredient of good business.** Corporate entertaining is important but it is mostly over lunch. A good meal is essential to seal a relationship, celebrate an agreement or just keep in touch.

**Business gifts are a way of life.** Another common practice is *le cadeau d'affaires* or business gift. These can be lavish and your counterpart expects them. Every industry has its 'rules' and it is best to ask your French collaborators. For a North American, the ethics of such gifts may be questionable but in certain industries you cannot operate without playing by the rules. The *cadeau d'affaires* does not guarantee you will win a contract. It is more a way of maintaining good relations and akin to upmarket promotional gifts. Examples of such gifts would be a box of foie gras for Christmas, or a silver pen on signing a deal.

# Doing Business in Germany

**Uncertain image of North America.** Canadian business does not enjoy a particularly positive reputation in Germany and is not distinguished clearly from a general view of North America. This is because of a combination of the poor reputation of North American manufacturing in general, and an unshakeable belief in the superiority of German technology.

The implications are that:

- Canadian companies must be sure that any advantages their products have over existing German products are stressed. All things being equal, a German product will always have preference.
- foreign companies must blend in much more than in other European countries. German must be spoken and it is important to employ German staff, even at senior management level.

**The business environment is heavily contractual.** No oral promise is valid unless included in a written contract. Contracts are rarely amended. Unlike in France, your German business partner will not seek a settlement out of court and will not hesitate to sue you. To work in Germany you must have a good lawyer who you must be sure works on your side.

The strict contractual environment has two major consequences:

- because of the strictly binding effect of contracts, decisions are made much more slowly than in North America; and
- your German counterpart will not enter negotiation with an idea of fairness, but will try to get the most out of the negotiation and embody it in a contract. To counterbalance that, stand firmly on your position. This is more respected in Germany than being flexible to the demands of a client!

**When Germans talk about reliability, they mean continuity.** German respect continuity from their suppliers. This works at two levels.

First, most German companies are very loyal to their suppliers and value a long-term relationship. To protect an established relationship with a supplier, German companies will even pay a premium. Thus, a company wishing to displace an established supplier must do much better on price and offer product and service advantages. A new supplier will also have to show constant initiative to get the opportunity to quote on products or services. The new entrant might have to spend time in the market before business takes off, to show commitment. Establishing a position in the German market is very costly, but, because of the loyalty gained from German clients, it is more valuable than in other countries.

Second, German companies find high staff turnover in their supplier companies suspicious and bad practice. Business in Germany cannot have the same staff turnover as is customary in North America. This makes the decision to employ very tricky, as you may have the same employees for a long period.

**Personal visits are important.** Unlike other countries where you introduce a new service by mail or by telephone, in Germany personal visits are considered an essential first step. German business contacts will easily agree to see you personally and will set aside enough time for the visit. They will require you to be very punctual if not slightly early. They will expect a brochure and will read it thoroughly.

**There is a lack of published marketing data.** Personal visits also allow you to collect market intelligence given the paucity of published data available. In Germany, you must use the grapevine as much as possible to understand a market.

**Expect higher costs than in Canada.** Most costs are higher than in Canada. The largest differences concern salaries, telecommunications and taxation levels. This implies that margins must be higher than in Canada to support the extra costs.

**German staff are not mobile.** Although most German executives speak fairly good English, they will be generally reluctant to move abroad. An argument put forward is that they do not want their personal routine disturbed. Another reason for their refusal to transfer is the attachment to their region, including its natural beauty. This attitude means that exchange programs are rarely implemented between German subsidiaries and foreign parent companies. As a result, foreign companies have a disadvantage in competing to recruit good people.

The distaste for travelling is also found among agents. Canadian companies who have used agents in many countries often find that their German agent never comes to see them.

**Personal relations are extremely formal.** Never use the familiar address form *Du*, or the first name unless you are asked to, which is extremely unlikely. Always use people's full titles such as *Herr Doktor* with their last names. If you break these rules, your German counterparts will think you are rude and therefore inferior. You will find that colleagues having worked 20 years side by side will address each other in this formal way and may never have set foot in each other's house.

**There is little corporate entertaining.** Corporate entertaining is not an important feature of doing business. It is rarely expected for two reasons.

The first reason is efficiency. If you have a meeting with a German business contact, a long time will be set aside for it, but there will be no small talk about the weather or the latest sports results. The meeting will start immediately with the core of the subject. Doing otherwise is considered a waste of time. If you are invited to have dinner with a business contact it is probably because there is no time to see you otherwise and the conversation will be almost entirely professional.

The second reason is the strong separation of personal from professional life. German executives guard their personal life. You will rarely be invited to a German colleague's home. This can be lonely for foreigners, who will need a long time to settle in and create a social life for themselves.

**Most German executives have a good working knowledge of English.** English has been taught as a second language systematically since the end of the Second World War, and the younger generation is influenced by American culture. However, a good working knowledge of English on the part of your German staff will not preclude misunderstandings related to language differences.

**Germany offers proximity to Eastern Europe.** Germany is seen by many Canadian companies as the best place for a company wishing to take advantage of the opening up of Eastern Europe while being based within the EC.

## Doing Business in the Netherlands

**In business, Canada has a neutral image.** The Netherlands is a country that historically has been open to foreigners. Being a foreign company in the Netherlands is not a disadvantage and nationality does not affect business decisions.

**Canada is associated with America for tough employment practices.** Potential employees might associate Canadian companies with American companies, which have a reputation for using people

ruthlessly. Some Canadian companies operating in the Netherlands find that they have to go to some length to convince potential employees that they are nice companies. However, presenting the company as an international company has a positive appeal.

**English is widely spoken.** Unlike other European countries, it is easy to hire linguists without paying a premium. Most business can be conducted in English. There is no need to learn Dutch, as nobody will expect foreigners to speak Dutch.

**There is a tradition of skilled workers.** The Netherlands offers manufacturing companies a tradition of skilled manual workers who compete well with other European countries. However, some Canadian companies thought that the productivity level was lower in the Netherlands compared with elsewhere, almost to the point of deterring them from setting up a manufacturing plant there.

**The Netherlands is a logistical centre for Europe.** The Netherlands has often been chosen as a set-up base by companies who need access to the French and German market and need a warehousing and distribution facility to serve Europe. The Dutch market itself is very small. The transport and communication structure is excellent. Rotterdam, vying with New York as the largest harbour in the world, is at the mouth of the Rhine, the most navigated river in the world. In addition, Schiphol is an established international airport. Road links are excellent too, with a good highway network allowing easy access to France and Germany.

**The business culture is relatively informal.** The importance of contractual agreements in the Netherlands can be rated as between France and Germany. Most agreements will be concluded with a written contract, but it is not unusual to make orders via the telephone and the facsimile.

Personal relations in a business context are quite similar to the United Kingdom and first names are easily used. Although the Dutch language has a formal address like French and German, its misuse is never discussed as very few foreigners speak Dutch, and the problem is solved by using the neutral English address.

**Costs are higher than in Canada.** Warehousing, salaries and personal taxes are higher than in Canada.

Labour laws are very protectionist of workers' rights and are very generous regarding employees' benefits, such as maternity leave. Therefore, the overall staffing costs can be considerably higher than in Canada. A practice that can cause friction with a Canadian head office is Dutch executives living a few hundred kilometres from their office. This is because of the high cost of housing transfer. Dutch law gives them the right to have the cost of public transport reimbursed.

**Market data are available.** The business culture in this field is more akin to North America and the United Kingdom. Market data are produced by a number of research companies and you can easily make enquiries in a given market.

**Selling methods vary.** Trade fairs are a useful marketing tool in the Netherlands and the rest of Europe. However, according to some Canadian companies in the Netherlands, direct mailing does not produce good results and salespeople have to call on potential customers and take them to lunch.

**Specifications are tighter and deadlines stricter than in Canada.** Canadian companies in the Netherlands found that specifications of products ordered tended to be more precise than in Canada. Similarly, delivery deadlines were expected to be respected. This is much less flexible than in Canada.

Canadians are viewed as more concerned with short-term financial gain, but our tighter financial controls are appreciated.

As in the rest of Europe, Canadian requirements for financial returns are often considered short term compared with the expectation of similar businesses in Europe. This can cause friction between Dutch subsidiaries and Canadian headquarters.

When Canadian companies have taken over Dutch companies they often implemented tighter financial controls. Although these controls mean more work, the more precise cost-monitoring measures tend to be appreciated by Dutch management.

**The Netherlands offers an attractive fiscal regime for foreign companies.** A number of foreign companies have chosen to base their European financial holding in the Netherlands because of attractive taxation legislation. This has often contributed to the establishment of the central European operations office there.

## Some Comparisons between Countries Studied

The Canadian companies interviewed in the four countries talked about similar themes. This allows some general comparisons to be drawn regarding business practices in the United Kingdom, France, Germany and the Netherlands.

| | United Kingdom | France | Germany | Netherlands |
|---|---|---|---|---|
| Image of Canadian business | Neutral | Positive | Uncertain | Neutral |
| Protectionism | None | ✣ ✣ ✣ | ✣ ✣ | ✣ |
| Importance of looking local | ✣ | ✣ ✣ | ✣ ✣ ✣ | ✣ |
| Importance of contracts | ✣ | ✣ | ✣ ✣ ✣ | ✣ ✣ |
| Formality of relations | ✣ | ✣ ✣ | ✣ ✣ ✣ | ✣ |
| Importance of corporate entertaining | ✣ ✣ | ✣ ✣ ✣ | ✣ | ✣ ✣ |
| Staff mobility | ✣ ✣ ✣ | ✣ ✣ | ✣ | ✣ ✣ |
| Availability of market data | ✣ ✣ ✣ | ✣ ✣ | ✣ | ✣ ✣ ✣ |
| General knowledge of English | ✣ ✣ ✣ | ✣ | ✣ ✣ | ✣ ✣ ✣ |

✣ unimportant, minimal

✣ ✣ important

✣ ✣ ✣ very important, significant

# 5. Case Studies

**Case Studies in the United Kingdom**

| Company | Sector |
|---|---|
| ♦ CCL Industries | Manufacturing of aerosols, packaging and labels |
| ♦ Com Dev | Signal processing systems for defence and aerospace |
| ♦ Labatt | Brewing and other interests |
| ♦ Moore Corporation | Business forms and computer supplies |
| ♦ Newbridge Networks | Digital network equipment |
| ♦ Vidéotron | Cable television |
| ♦ Voortman Cookies | Baked goods |

## CCL Industries

### How to exploit existing skills.

*Canadian operations*

CCL Industries is a Canadian-based multinational corporation engaged in the custom manufacturing of consumer goods in North America and Europe, printing of labels, and manufacturing of aluminum aerosol containers and tubes in North America.

*U.K. activities*

Challenged by the Canada-U.S. Free Trade Agreement and the forthcoming European Single Market, CCL started to push back its frontiers first by acquiring a U.S.-based company, and then by acquiring two English companies: Osmond Aerosols in November 1989 (receivership situation) and Minipak (for its pharmaceutical expertise) in February 1990. Acquisition was preferred to any other entry route because:

- the company had no expertise in greenfield. It is, however, experienced at buying companies in trouble and turning them around;
- it is difficult to build a customer base in custom manufacturing because of extreme loyalty to suppliers; and
- the perceived obstacles associated with starting from scratch in a foreign country were too great.

*Lessons to be drawn*

U.K. operations are still in their teething phase, but some conclusions can already be drawn.

**Senior management positions were staffed by a combination of Canadian people familiar with the United Kingdom, and U.K. nationals from the acquired companies.** The objective was to transfer the Canadian corporate culture while preventing any major disruptions in the companies bought.

- It was easier to reorganize the U.K. operations than might be expected because of CCL's network of suppliers and customers with worldwide operations.

- Many of the problems involved in acquiring a company in receivership have been eased by the good reputation of the acquirer.

**Under the guidance of experienced in-house legal staff, CCL used local lawyers.** This strategy proved invaluable because of the complexity of the deals and local lawyers' extensive knowledge of the U.K. legal framework.

## Com Dev

### How to make a smooth transition from agent to greenfield investment.

*Canadian operations*

A privately owned company founded in 1971, Com Dev designs and manufactures advanced microwave, millimetre wave and signal processing subsystems sold to the space, aerospace and defence markets on an original equipment manufacturer (OEM) basis (whereby its client's name appears on its products). Its largest business area is in satellite-borne subsystems.

Its 1990 turnover was around $40 million, with 80% of the Canadian production exported to the United States, Europe and Japan. Turnover in 1990 in the U.K. subsidiary was about $4 million. The company employs 350 people in Canada and 30 in the United Kingdom.

*U.K. activities*

In 1985, Com Dev Europe was established to provide a European base for its products. Some of its low-priced standardized products were already sold through an agent, but Com Dev's entrepreneurial instinct made its managers believe there was a niche opportunity for its value-added products. This, however, necessitated a European presence because of the tailor-made nature of Com Dev's products. This European base was even more essential in view of the politics involved in selling to the European space industry.

*Lessons to be drawn*

**The financial commitment was minimized.** The company took the following measures.

- The U.K. operations started very small, offering only design and marketing facilities for the first 18 months. The manufacturing was subcontracted to the Canadian plant or to local manufacturers.
- The Canadian company provided the financing until the break-even point was reached, but insisted on a policy of self-financing for subsequent investments.

**Com Dev made its objective for the United Kingdom clear.** The company wanted to have a complete organization covering design, selling, manufacturing and testing. In doing so, the company conveyed the entrepreneurial spirit it perceived as being a key factor in its success.

**An experienced U.K. national was recruited as managing director.** This meant the managing director had extensive experience and knowledge of the European space industry. The recruitment was made possible by using a headhunter.

**The small size of the U.K. division in the first two years created a credibility problem.** No definite solution was found, but the following tactics helped.

- Com Dev sent clients to Canada to reassure them of the seriousness of the company.
- The first major European contract was signed with the Canadian company, but subcontracted to the U.K. division to reassure the European customers.
- The U.K. company swiftly imported the parent company's processes and procedures that had contributed to its reputation.
- As soon as the level of activities allowed, Com Dev acquired a small manufacturing capacity.
- Final establishment in Europe is now being confirmed. In 1990-91, Com Dev Europe moved into a purpose-built facility of 13,000 $ft^2$, representing a further investment of more than $3 million.

**Daily freedom for U.K. management was balanced by monthly financial reporting to headquarters.** The U.K. management enjoys a great deal of freedom on daily decisions, but some control from the Canadian company is maintained through monthly financial reporting. The president or the chairman visits every two to three months.

**Frequent technical exchanges are viewed favourably.** On the engineering side, the two companies exchange telephone calls almost daily. These exchanges are a useful source of new ideas (products, techniques, marketing) for both sides. Exchanges of people to work on a particular project, for a period varying from one to several weeks, are a regular feature.

**Emphasis on differences in business culture is used positively.** Transferring the Canadian culture and participative management style to the U.K. operations was considered essential. However, differences in the social landscape of the two countries were also taken into account. Com Dev now offers what it describes as a "broad level of equality" to all employees. Because of the frequent contacts between North American and European employees, management spent much time highlighting those differences (e.g., holidays are much longer in the United Kingdom than in Canada, fringe benefits are generally more generous in the United Kingdom, the salaries are higher in Canada, profit-sharing is much more ingrained in Canada).

**U.K. operations were divided into two parts to minimize taxation load.** To minimize the taxation load, U.K. operations were at first divided in two parts with the trading activities considered as Canadian revenues, and the capital assets activities assigned to a U.K. registered limited company. Through this agreement, the company was able to offset the losses of U.K. operations against its Canadian revenues, and hence reduce its tax bill. However, as soon as the U.K. company began to break even, U.K. trading activities came under the U.K. company.

This arrangement was designed by Com Dev's accountants, who were chosen especially because of their knowledge of international taxation.

**The greenfield investment route highlights differences between Canada and United Kingdom.** The construction of Com Dev Europe's headquarters highlights a few points to be considered when planning a greenfield investment.

- Much planning and time was required. Between the initial thought and the actual move, two years elapsed. It took almost one year just to find the land.
- Land prices are much higher in the United Kingdom than in Canada.
- The United Kingdom has much tougher planning and building regulations than Canada does.

Com Dev sees the U.K. experience as the model for expanding into other European countries.

## Labatt

### Research is the key.

*Canadian operations*

Labatt is one of the two main Canadian brewers, and is also involved in other sectors in a range of products, mainly in the food industry.

*U.K. activities*

The U.K. expansion was part of Labatt's decision to become a world-class brewing company to offset the potential negative effects of the then forthcoming Canada-U.S. Free Trade Agreement.

Labatt's U.K. involvement developed in two phases.

- In 1985, Labatt Canada sent one sales director to the United Kingdom, and started to export its Canadian production using four sales representatives. The objective was to determine how acceptable its products would be in the U.K. market, and to evaluate how marketing and sales techniques used in Canada could be applied in the United Kingdom.

- In 1987, three senior managers from the parent company moved to the United Kingdom with the objective of realizing significant business there by creating a strong Labatt brand.

The entry route chosen involves renting spare production capacity from U.K. brewers and using the brewers' distribution network (pubs) for draught beers, while selling the bottled production through retailing channels with Labatt U.K.'s own sales force.

This option was preferred to other entry routes because:

- a greenfield investment would have been very expensive and contrary to the minimum investment policy adopted by the parent company for its U.K. expansion;
- the U.K. beer industry had considerable production capacity; and
- the distribution characteristics of the U.K. beer market meant that brewers control a considerable share of pub sales.

*Lessons to be drawn*

**International market study is essential for development.** To decide which countries to concentrate on, Labatt conducted an extensive market study of most free-world countries, rating them on a point scale against a predetermined set of factors (e.g., beer consumption, product types, government and legal environment, profitability of the industry, repatriation of profits). The information obtained through this study was an essential, though expensive, step in the international development of Labatt. Another source of valuable information was Labatt's knowledge of the worldwide beer industry gathered by attending world fairs and participating in trade associations.

**An extensive advertising campaign positioned its products.** Because the company was dealing with a consumer product where brand awareness is a

key success factor, Labatt's advertising campaign was very important. It reckoned that to be successful in the U.K. market, advertisements would have to be humorous, and would have to stress the Canadian factor to position its products as international lagers.

**U.K. personnel were introduced to corporate culture in Canada.** A cross-fertilization program has just begun with the objective of introducing U.K. nationals into the Canadian company. After a period of time, they can return to the United Kingdom to assume some of the senior roles currently filled by Canadian managers.

**Needs of families must be considered.** Much importance was given to integrating the three managers' families. According to the interviewee, when moving abroad, Canadian managers should be conscious of the heavy demands that will be made of them, and of the need to reconcile them with pressures from their family, who must get used to a new life in a foreign country.

**Each European country must be treated as a separate proposition.** Though the United Kingdom was Labatt's first European target, it has not served as the prototype for other continental countries. The company sees each country as very different, at least as far as the beer industry is concerned, and requiring a distinct strategic entry. In Italy, for example, Labatt bought two breweries.

# Moore Corporation

## How to become a global company through acquisition.

*Canadian operations*

Moore Corporation is a multinational organization providing products and services in the business information sector (e.g., business forms, labels, computer supplies and information-management services). It operates in 54 countries with 150 manufacturing plants (major markets are located in North America, Europe, Australia and South America). It employs more than 26,000 people worldwide.

*U.K. activities*

Having built a dominant position in North and South America, Moore Corporation decided to become a global company. This objective was achieved through the acquisition of Lamson Industries, a U.K.-based conglomerate of European, African, Australian and Middle East companies. This was done in three steps with Moore buying 20% of Lamson's equity in 1964, and increasing it to 52% in 1973 and to 100% in 1977.

This entry route was preferred because:

- Samuel Moore, founder of the Canadian company in 1882, was also involved in the start-up of Lamson Industries. Because of these historical links, the two companies maintained a good relationship throughout the years; and
- Lamson was involved in markets where Moore wanted to develop a presence.

*Lessons to be drawn*

Though the European expansion has been taking place since 1977, valuable lessons can still be drawn from Moore's experience.

**Cross-fertilization programs are seen as essential to achieving harmonious relations.** To transfer Moore's culture and management style, and to mitigate negative reactions following the acquisition, a cross-fertilization program was set up. This program involved sending senior managers of Lamson to North America for a period of two to seven years, or exchanging financial and marketing people between Europe and Canada for two to six months.

**All activities except sales will be regrouped Europe-wide.** Over the next three years, European activities will be reorganized with the objective of regrouping the various companies into a European division. However, sales will continue to be organized within each country to satisfy national idiosyncrasies.

**Its U.K. advertising campaign promotes awareness of company change.** An extensive advertising campaign was conducted after the acquisition of Lamson to make customers and suppliers aware of the change in the name and ownership of the company.

**Differences became apparent.** Despite their relationship with Lamson, Moore discovered some important differences between North Americans and Europeans after the acquisition:

- the process of change takes longer in Europe than in North America; and
- contrary to many North American prejudices, Europeans have reached a high degree of technical sophistication and competence. It was particularly important for Moore to recognize this, since its North American R&D office is responsible for developing products for the European markets as well. One solution is to get R&D people to attend European trade shows.

## Newbridge Networks

### The international entrepreneurial company.

*Canadian operations*

Newbridge Networks Corporation, based in Kanata, Ontario, was founded in March 1986 by one of Mitel's co-founders. The company designs and manufactures a wide range of equipment solutions for implementing digital networks. After five years of activity, it relies on some 1,200 employees, and enjoys a turnover of more than $100 million.

*U.K. activities*

When the company was founded, it was decided to set up an international structure. This was seen as an essential step in view of the internationalization of the telecommunications industry. By July 1986, the company had opened an office in the United States, and another one in Newport, South Wales.

The U.K. expansion was done in three phases.

- From 1986 to 1988, a sales office assessed the market for Newbridge products.
- In 1988, the company built a 30,000 $ft^2$ production plant.
- In 1990, it doubled the size of this plant.

Greenfield investment was preferred to acquisition because Newbridge was able to build exactly what it wanted. Greenfield was therefore perceived as a more effective investment.

In addition to this greenfield investment, Newbridge has entered into two OEM agreements with Alcatel NV and AT&T (whereby their names appear on its products). The objective is to gain access and credibility in two markets where the buyers, the PTTs, are very conservative and buy only from well-known suppliers.

*Lessons to be drawn*

**The founder's experience and contacts proved invaluable.** A key factor in Newbridge's success has been the founder's vast experience in the information technology sector, and his knowledge of both the North American and U.K./European environments.

The selection of the U.K. location was influenced by the availability of grants provided by the Welsh Development Agency and other local government bodies. Other factors were the transport and communications facilities in this area, and the founder had many contacts already living in Wales.

**Hiring experienced U.K. nationals meant reduced involvement of corporate management.** Another essential ingredient in Newbridge's U.K. operations was hiring U.K. nationals with vast experience in the telecommunications industry (people who were working for Mitel U.K.), and who were known and trusted by the corporate management. This allowed for less

involvement of corporate management in setting up U.K. operations, since many practical decisions could be handled by the U.K. team.

Furthermore, because of the team's experience, it was not necessary to conduct an extensive market study before starting U.K. operations. Market research, however, was used to supplement the company's information system.

**Products were designed to international standards from inception.** Another of Newbridge's assets was designing its products according to international standards from the beginning. This, in turn, was facilitated by the international experience of management, who knew those standards.

**All marketing tools available were used to promote awareness in U.K. market.** Newbridge used a combination of advertising, word of mouth and attendance at trade shows to get known in the U.K. market.

## Vidéotron

### How to become a player in a highly regulated market.

*Canadian operations*

Vidéotron, a Montreal-based company, has been in the cable business for 26 years. It is the largest cable operator in Quebec, and the second largest in Canada. Recently, the company acquired a majority interest in the largest French-Canadian television channel.

*U.K. activities*

To find new markets for their Videoway innovation, Vidéotron decided to expand in Europe. After an unsuccessful attempt in France, the company headed for the United Kingdom, first acquiring companies that had been awarded cable franchises, and then by applying for new franchises itself.

*Lessons to be drawn*

Although Vidéotron has just started its U.K. operations, some of its decisions and actions are worth noting.

**Key Canadian personnel were sent to United Kingdom.** To export and maintain the entrepreneurial culture on which most of its success has been based, Vidéotron's president sent his right-hand people to take charge of U.K. overall operations, and used Canadian employees to train U.K. workers.

**Extensive marketing and financial studies were carried out before entry.** The company did a thorough marketing and financial study of the United Kingdom before deciding to go on. As part of this internal study, it asked Quebec House to prepare an overall picture of the market (competition, contacts, regulatory environment).

**Good communications were maintained despite the different time zones.** So far, good communications between Montreal and London have been maintained through extensive use of telephone and fax lines. U.K. management has accepted the necessity of staying late at the office because of the time difference, and the need for making some decisions without being able to rely on Montreal's advice.

Furthermore, an appropriate degree of control has been achieved through monthly visits by the president.

# Voortman Cookies

## Coming to terms with different retail practices.

*Canadian operations*

Voortman Cookies is a family business founded by two Dutch brothers in 1950. It started as a small bakery and expanded gradually, first in Canada, then in the United States.

*U.K. activities*

Its involvement in the United Kingdom dates back to August 1987 and took the shape of a sales office started by the company's marketing manager (a Dutchman, who lived 20 years in Canada). The use of an agent was not seriously considered; baked goods require a specialized distributor system because:

- cookies have a short shelf life;
- competition is very strong; and
- freshness is vital to the consumer.

An agent would have been an expensive unnecessary link. Therefore, the U.K. operations started on a very small scale with the marketing manager working from his home office. However, after a steady flow of sales, a permanent office was opened. There is now a staff of 10 people operating in the United Kingdom. Recently the U.K. sales office has begun to explore the French market.

*Lessons to be drawn*

**Despite the lack of planning, U.K. market entry was not disastrous.** The entry of Voortman Cookies to the United Kingdom was preceded neither by a thorough market study, nor by an extensive investigation of the possible sources of difficulty. Fortunately for the company, the perseverance of its salespeople resulted in a successful market entry, but not without some pitfalls.

The company lost much time as initially the wrong buyers were contacted and Voortman's method of distribution is not commonly used for cookies in the United Kingdom.

It had not foreseen some differences between the United Kingdom and North America.

- U.K. buyers tend to be concerned about possible delays in importing from outside Europe.
- U.K. buyers take more time to decide. "Even if they like the products, they want to see your face a few times, before they make the final decision."
- Unlike Americans, U.K. consumers won't buy something just because it is new.
- Consumers in the U.K. market are much more aware of additives and preservatives than Canadian consumers.
- Fluctuating and high import duties and levies do not leave much room for profits.

**Being a foreign-owned company can be a drawback in attracting staff.** Voortman believes that its inability to attract the highest calibre people, becaus it was a new and unknown overseas company, slowed initial growth.

## Case Studies in France

| Company | Sector |
|---|---|
| ♦ Alcan | Aluminum building products |
| ♦ ANF (Ateliers Nord France) | Railway equipment |
| ♦ Cascades | Paper |
| ♦ McCain | French fries and other food products |
| ♦ Northern Telecom | Telephone exchange systems |
| ♦ Ogilvie Mills | Flour and gluten products |
| ♦ Ogivar | Computer equipment |

## Alcan

**Best service to clients means owning the operation in each country, but using local managers.**

*Canadian operations*

Alcan is the world's number two producer of aluminum. Alcan was born when Alcoa split into two parts to separate its U.S. activities from its international activities. This split was imposed by the U.S. antitrust regulations. Alcan represents all the international activities of the old Alcoa group. It integrated vertically upstream with mining and extraction, as well as downstream with the production of a number of aluminum consumer products. It even owns hydroelectric production units, since energy accounts for one-third of the cost of producing aluminum.

*French activities*

Alcan has been in France since 1912, when it originally exploited a bauxite mine. It also transformed aluminum ingot into powder used for rocket propellant and raw material for metallic paint. In 1959, it started to produce aluminum beams destined for the transportation and construction industry. Alcan became the strongest competitor to the local group Péchiney, in soft alloy extrusion. In 1978, Alcan bought a large distributor of aluminum building products, Technal. The mine has recently been exhausted and the extrusion presses sold to a European competitor. The building material design, fabrication and distribution activities are now the main core of Alcan's business in France.

Alcan's strategy is to concentrate on this market niche and secure a large market share. It already has a significant share of the market for aluminum construction systems in Europe and thus is placed number three. Technal, although based in France, works in nine European countries, with an emphasis in southern Europe because Technal was based in Toulouse. Its markets are residential as well as institutional. It employs 1,800 people.

*Lessons to be drawn*

**Best service to clients means owning the operation in each country, but using local managers.** One way to obtain a higher market share is promoting a spirit of service to the client inside the company. This has two consequences.

- Alcan believes that clients are best served in each country by local people who speak the same language. Hence, Alcan has an overall policy to use a local management team in every country in which it operates.

- As much as possible, Alcan tries to set up its own operation rather than use agents. Experience has taught Alcan that agents will never serve the client as readily unless they are directly interested. Also, most agents have a number of product lines to promote, sometimes their own, and at some point a conflict of interest occurs. This is also the case for strategic alliances. In the end, the sense of responsibility is never as strong as when one's name is linked to a product.

**Canadian-French exchanges multiplied by a 'networking' communication structure within the organization.** Exchanges with Canada are at two levels.

- The group reporting structure was considerably flattened in 1988 when there was an obligation to reduce overheads. Instead of the previous structure, which had a hierarchy layered with a staff office in Paris and a subsequent European office in Geneva reporting to Canada, the present reporting system has been completely decentralized and is best described as a *maillage* or networking. Anyone in the group can contact anyone else for advice and cooperation. There is no need to go through head office. Contacts among managers are fostered by regular gatherings at chief executive officer, senior and intermediate management levels. Horizontal networking has replaced layers of hierarchy and is encouraging internal management groups and a senior management group to be set up. For example, the French subsidiary has organized a seminar in Carcassonne for the group on aluminum product development. Most of the exchanges stem from personal initiatives and concern technical or personnel matters.

- Following this decentralization, the financial reporting is also directly filed with head office in Montreal. When approval has been given for the strategy and yearly budgets, total operational autonomy is given to the subsidiaries.

**Face-to-face meetings are important.** Real exchanges of staff were difficult to implement. French staff demanded that their job be kept for them in France and Alcan found that this was too difficult to manage. Canadian expatriates are expensive and their qualifications did not always meet the local needs. But seminars among peers or around a theme are deemed extremely valuable for building relationships in the group.

In dealing with transatlantic relations, Alcan managers do not hesitate to board a plane to discuss difficult subjects.

**Short-term financial management must be balanced with long-term returns.** A major difference in management philosophy between France and Canada (or North America) is the emphasis on financial data. The French tend to find North American financial reporting heavy and often focusing on short-term returns to the detriment of long-term considerations. Alcan's worldwide target is a higher-than-average return for raw material groups. However, French management recognizes that the data demanded by the North American parent can also be useful to help local management decisions. Generally, it is not a problem running two parallel financial accounting systems to comply with French rules and Canadian rules.

**Tighter financial controls were gradually phased in.** When new companies are acquired, Alcan phases in its accounting system gradually to be homogeneous with the group's accounting system. This gradual introduction of the group's financial reporting is done to protect sensitivities at the acquired company. The French base has strong computer skills and will help to adapt the systems.

**Canadians are viewed as fair players.** Another management tool imported from Canada was the Hay method of evaluating management performance. French managers view it as a guarantee of fairness in their assessment, protecting them from the discretion of one direct superior. It contributes to the general management style of Alcan, which strives for fairness in all its dealings with employees and outsiders. The Canadian group has published a chart (purpose, objectives and principles) that is used as a basis for managerial ethics. Its published mission statement has been the basis for the locally developed *projet d'entreprise* outlining a five-year vision of French business development.

**Being fair can turn against Canadian companies.** Alcan grows mostly by acquisition and in its approach to negotiations it adopts a very open attitude to the potential partner. Imported from North American management culture is the motto STIR: Sincerity, Trust, Integrity, Rigour. This attitude has already frightened off potential partners who, being true Europeans, were suspicious of the goodwill displayed by the Alcan team!

Canada has a very friendly (*sympathique*) image in France, compared with the aggressive image associated with American companies. However, Alcan has not systematically tried to capitalize on this.

**Other management style imports from Canada have done well in the French culture.** These are:

- the care given to issues of product liability and environment;
- the heavy use of management consultants; and
- the drafting of succession plans.

**A health warning on Canadian French: *faux amis* and excessive use of *tu*.** Speaking French is not always an advantage. Many misunderstandings have arisen from *faux amis* between the different versions of French spoken on either side of the Atlantic. The habit of using the informal address *tu*, which is widespread in Canada, puts people off in France.

## Ateliers Nord France (ANF)

**By behaving fairly, the Canadian partner gained a large capital of goodwill.**

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*Canadian operations*

ANF is part of the Bombardier group, which includes activities in railway equipment and airplane manufacturing.

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*French activities*

ANF is one of the three manufacturers in France of passenger rail wagons. The wagons of the Eurotunnel trains are in its order books. One-off projects make up 98% of its turnover.

In 1988 the industry went through a restructuring phase. It became obvious that to survive, ANF had to ally itself to a solid partner who would give the company financial backing as well as contribute to the operation. Moreover, its shareholder, the insurance group Axa, wished to concentrate on its core activities and divest from ANF. ANF's main competitor in France, Alsthom, had also sought to consolidate its position through partnership and had signed an agreement with General Electric Canada.

The Axa group sought a new partner for ANF and concluded that Bombardier would be the most suitable. Indeed, Bombardier was financially healthy and therefore could finance new developments. The two operations were also complementary and each party could bring valuable input to the alliance. Bombardier had sophisticated operational and financial control systems in the same industry in North America and ANF offered superior technological capabilities and a long presence on the French market. The latter was important in this business, which is heavily dependent on government contracts. Moreover, the proposed alliance provided economies of scale for both partners.

With a view to selling off ANF, a major rejuvenation program was undertaken. ANF made a large number of redundancies and renewed the management team, which had traditionally come from the same engineering school Polytechnique. Management was somewhat complacent as its clients in the French railway were old school mates. There was a belief that if ANF was losing money, the shareholder would always bail the company out and was somewhat obliged to do so given the strategic nature of the business: *"L'actionnaire fera son devoir."* The culture was very product-driven, neglecting the financial and marketing aspects of the business. It would have been very difficult politically for a foreign owner to undertake such a radical program of redundancies and management change. The French state would have probably asked the new owner for guarantees regarding jobs. Even as a French company, ANF had to spend a lot of management time with the unions and the French government. Therefore, the *sale boulot* had to be done before selling the company.

*Lessons to be drawn*

**Great independence was left to the acquired French company.** ANF trades under its own name, which has a high-quality reputation on the market. Overall, once strategic plans and budgets have been approved, ANF is free to implement. On ad hoc projects both organizations might pool resources to produce the best bid.

**Top management was dedicated to the success of the merger.** In this case, the bought company sought the buyer and therefore there is a large reserve of goodwill from the management team of the bought company. They have known Bombardier for some years from dealing with them and studying the organization before approaching it. Because of that, Bombardier insisted that the same management team stay at the top of ANF. A successful integration would be impossible without the management team's firm belief in the benefits of the merger and in sending the right messages through the organization.

**Staff exchanges proved valuable.** Exchange programs of staff have been implemented. It has proved very valuable for both parties to get to know each other and their different cultures. The French appreciated the straightforwardness of their Canadian colleagues. At any time, there are about 10 Bombardier executives working in ANF. Exchanges are easier because both parties speak French and Bombardier is perceived as a French-speaking organization. For the non-French speakers, Bombardier has implemented two-to-six-week language courses.

**The Canadian partner was seen as fair.** From the point of view of ANF, the goodwill toward Bombardier is enhanced by the perception among staff that during the negotiations Bombardier behaved fairly. Bombardier did not attempt to take undue advantage of the desperate financial situation of ANF.

**The transfer of the information system was successful because it was done completely.** The operational and financial management programs of Bombardier were imported to ANF. These were the result of six years of development in Bombardier and had the advantage of being in French. Moreover, they had been designed for the same industry and were immediately usable by ANF staff. To avoid any further delay in the implementation of this management system, ANF did not bother trying to adapt the software to its existing computer system, but bought the same computer as the parent company to run the program smoothly. This approach sidestepped the problems and criticisms that the system would have had if it had been implemented only halfway, or if it would have had to be adapted to a different hardware.

**Differences are interpreted positively as a contribution of each party to the partnership.** ANF and Bombardier have different business philosophies, but the differences are used as positively as possible. For example, North Americans have a bottom-line view of a project: "Is it going to make money?" The French have a more technology-achievement view of the attractiveness of a proposition: *"L'art pour l'art."* Financial reporting has been formalized since the acquisition and required some adaptation for ANF managers who were accustomed to an informal financial discipline. But overall the data and ratios

requested by the parent company are viewed as useful decision tools directly related to operational needs.

**The extent of state intervention was a surprise.** Although Bombardier knew this industrial sector well in North America, the company was surprised by how different business practices are in France in the same sector. Above all, the intervention of the French state concerns numerous aspects of the business that are considered strategic. For example:

- to sell ANF to Bombardier, approbation from the Ministry of Finance had to be obtained;
- the transport infrastructure in France is state-owned, especially the railways; and
- redundancies must be approved by the state.

**France has a protectionist business climate.** The business climate in France is generally protectionist and foreign companies must tread carefully. The public bid system also has different rules compared with the practice in North America.

## Cascades

**The French state plays an interventionist role in private business.**

*Canadian operations*

Cascades is a paper manufacturer specializing in turnarounds in the paper industry. It has expertise in solving technological problems and bringing in rigorous financial reporting systems.

*French activities*

Cascades' involvement in France started by chance in 1985. It was not a preconceived strategy. Through an intermediary, Cascades became aware of the possibility of buying out an ailing paper manufacturer, La Rochette. After proper market research, it decided to buy the company for one symbolic franc. From then on Cascades decided to build on its strength in the French market, and in 1986, bought another company, Blendecques, which was in the same group as La Rochette. In 1987 Avot Vallée, producing corrugated cardboard, was added to the group. Other units were also bought in Belgium and Sweden.

In 1989, Cascades started a greenfield operation in recycling old papers to supply raw material to one of its paper manufacturing units. At that point, Cascades decided to gain a foothold in what it saw could be a fast-growing market in Europe: paper recycling. In another attempt to secure supplies to its plants, Cascades also invested in sawmills. The French sawmill industry, traditionally very fragmented, was becoming concentrated. Cascades did not want to depend on a large sawmill group and decided to invest directly in the industry.

Cascades knew that it could bring decisive technological help to the companies it bought. The group has specialized in turnarounds in the paper industry. It has expertise in solving financial management and technical problems.

An important factor in deciding to come to France was the package of financial and fiscal aid given by the French government.

Cascades missed an opportunity to complete the acquisition of a French newsprint company because of its foreign ownership and the French authorities' concern with the so-called strategic nature of the newsprint sector. Cascades has not had to face this kind of issue with its other European companies in Sweden and Belgium. The experience means that the company will be more cautious with expansion in France.

Cascades has received assistance from the Canadian embassy and the Quebec delegation in negotiations of the fiscal advantages awarded by the French government when Cascades bought ailing companies.

*Lessons to be drawn*

**Cascades brought tighter financial management.** Cascades imposes its Canadian management tools on companies it buys in Europe. There has been no problem with this, mostly because there is always a Canadian at the top of the company who directs the turnaround.

The only difficulty encountered was in getting people to think in real costs rather than standard costs. It is not only a matter of specific methodology, but also of general financial awareness.

**The French have higher quality standards.** On the other hand, Canadian companies coming into France need the input of French culture to be able to serve French markets. In general, French management is much more product and technology oriented. In the cultural exchanges between Canada and France, the French bring an attention to detail and quality that most Canadian companies do not have at home. In France, design and conception of products is much more based on a vision of long life cycle of the products than in North America. Canadian companies must be able to adapt to higher quality standards throughout the industry. For example, Canadian packers use second-grade cardboard, but the French use first-class materials.

**The French are not natural team players.** Another difference between the Canadian and French management cultures is the lack of training of French executives to work in teams and share information. Relations among colleagues are kept formal. This is the result of the education system, which is highly individualistic. People are very conscious of hierarchy and have difficulty taking initiative. Cascades has invested in Scandinavia and found stark contrasts regarding management attitudes in France and in Sweden, where team work is largely practised. To remedy this situation, the Canadian managers of Cascades in France have implemented an open door policy signifying to staff that they are always open to comments and leaving the doors of their offices physically open.

**Top management is Canadian.** As a principle, Cascades always posts one of its own directors at the top of bought companies. This keeps the company better informed of developments and assures implementation of turnaround measures. However, the personal cost to these executives and their families is very high. These paper manufacturers are located far from big towns and it is difficult for foreigners to integrate socially, especially as the French keep their social and work life separate. The fact that the Canadians are 'the boss' does not help relations in this hierarchy-conscious country.

**Speaking French is a must.** In France, the knowledge and use of foreign languages is not widespread. This has not created any difficulties for Cascades, given that it is a Quebec-based company. In Belgium (where there is the added dimension of Flemish) and in Sweden, the Canadian top management communicates in English with the local staff. Ideally, Cascades would send executives to Europe who can speak three or four languages, because even if a company is based in one country, it is bound to have to deal with other countries in Europe.

**Staff exchanges were valuable.** It was found very useful to exchange staff to meet face to face and iron out differences. It worked particularly well between France and Quebec.

# McCain

## Integration to the local scene is the key to successful operations.

*Canadian operations*

McCain is best known for its frozen French fries but is also active in other food sectors such as vegetables and pizzas.

*French activities*

McCain set up its operation in France in 1981. It was decided that the French market for frozen French fries was ready for a new product. At the time, there were already some very well established manufacturers of frozen food in France, such as Findus. However, McCain had a unique technology for processing potatoes.

The region chosen in France provided a combination of raw materials and skilled labour. In this mining region, it was found that ex-miners were skilled and converted easily to new jobs. McCain was helped by the French government, which provided a number of fiscal and financial incentives for companies setting up in this old mining part of France. The incentives offered by the French government tipped the balance in favour of the North of France, instead of Belgium.

McCain has been established in Europe since 1957. Its first foray into Europe was in the United Kingdom, where the market for French fries was strongly similar to Canada. Similarity in language was also an important factor in choosing the United Kingdom as the first settlement in Europe. Then McCain set up in the Netherlands (the Dutch subsidiary also serves Germany), Spain and last in France. France was the last large European market entered because of the conservative mentality of French consumers about cooking methods. McCain reckoned that the French would be the last to adopt a new way of making fries.

Each country in Europe was found to have different tastes and habits concerning French fries. Therefore, McCain must have a dedicated production and distribution facility for each market. For McCain, there is no such thing as economies of scale in Europe.

*Lessons to be drawn*

**Total integration to the local scene and independence from Canadian headquarters was successful.** *"Il faut boire le vin du pays."* In every country where McCain sets up an operation, it tries to behave as much as possible like a local company. This has consequences for all levels of operation: all the management team is local, even the company cars are produced locally. French management was brought in, however, after the original set-up was overseen by Canadian executives who controlled the engineering and the financial aspects. Then, French management with previous experience in Anglo-Saxon companies was hired. According to McCain, that provided the perfect mix of cultural affinity. Apart from the obviously Anglo-Saxon name of the company, employees do not feel that they are working for a foreign company.

In this case, integration with the local scene is also a business imperative since the operations are closely linked to agriculture, a sector in France traditionally suspicious of foreigners. McCain therefore quickly established direct relations with the local agricultural unions. In a rural area, such as the site chosen by McCain, local government can play a key role in easing things for a newcomer. The French management of McCain ensured good working relations with the local communist municipality even though they might not agree ideologically.

Unlike the South of France, people in the North take longer to open up. Relations tend to be more cautious and formal. But once a newcomer is accepted, there is very strong loyalty. This means that top management staff must not change too often to preserve local ties.

As it is integrated into the local scene, each subsidiary is run as an independent profit centre and has total freedom within approved budgets to launch new products in its market. In France, McCain has identified several product lines specifically suited to the French market and has been able to launch them.

**Relations between colleagues are more formal than in Canada.** French managers are surprised by the similarities between the Canadian and French cultures. The major difference seemed to be in the relations among colleagues, which are much more informal in Canada. But management tools and vocabulary were found to be very similar.

**Staff exchanges are not widespread.** There is very little formal exchange of staff between Canada and France, apart from a few engineers going to Canada for a short time to look at new techniques developed by the R&D centre in Canada. This is linked to the specificity of each market and the independence of each operation, which means that apart from technical matters there is often little in common between the subsidiaries in different countries. Language differences also minimize the usefulness of staff exchanges.

**Family business values have been transferred to the subsidiaries.** McCain has succeeded in transferring the family business values to the subsidiaries. The McCain brothers are very close to operations and staff are very loyal. In return, the company has a policy of respect for people. This philosophy has successfully fought off prejudices against North American companies, which have a reputation for somewhat ruthless personnel management.

**Hire the right people immediately.** As true entrepreneurs, McCain first set up in France with a very light structure. A company was bought in a week. But with hindsight, mistakes could have been avoided by hiring qualified managers immediately.

**The company adopted a flat hierarchy structure.** Although McCain in France tried to behave like a French company, it has adopted the flat hierarchy structure and an open door policy that is more akin to Canadian management style. This allows major decisions, such as a new product launch, to be made in record time.

**Canada enjoys a positive image.** Canada, in particular Quebec, has a very positive national image in France. However, McCain does not use its Canadian origin in its positioning or image-making of its products. Most French consumers think that it is an American company and McCain has been able to bank on its North American origin when launching 'American' pizzas.

## Northern Telecom

**Great autonomy was given to local subsidiaries with a successful blend of Canadian and French corporate cultures.**

*Canadian operations*

Northern Telecom manufactures and distributes a wide range of telecommunications products, including telephone handsets, PBXs (private branch exchanges), telephone exchange switching equipment and transmission equipment.

*French activities*

Having had operations in the United Kingdom for some time, in the late 1980s Northern Telecom chose France as the country through which it would push on into continental Europe. France was chosen for three reasons. First, key senior management were personally familiar with France. Second, France was viewed as a market with great potential in Europe, perhaps on a par with Germany. If the company could meet the demanding conditions of the French regulatory and approval authorities, then things would be easier in other countries. Third, it was decided that to enter the French market the company must set up a French affiliate, rather than trying to develop French sales from the U.K. base.

The company has had an office in Paris from 1974, but this was only for seeking to license the production of Northern Telecom products to French manufacturers. The signs of liberalization in the telecommunications market encouraged Northern Telecom to go beyond licensing, and seek to sell its products in the market.

The company's first sales were to organizations, such as the Organization for Economic Co-operation and Development (OECD), which do not need national type approval. In 1988, Northern Telecom got type approval for its main PBX product of the time (the Meridian SL-1) on the understanding that it would set up a factory in France, which it established in Verdun in the northeast of the country. Recently, the company has won prestigious contracts with major French companies such as Michelin, L'Oréal, Le Figaro, Air France and the airline reservation system, SITA. The company now has about 350 staff in France, spread among the PBX factory, R&D, sales and marketing.

*Lessons to be drawn*

**European countries are all different.** While the United Kingdom was seen by Northern Telecom in Canada as a natural first location in Europe, it was recognized that because telecommunications markets are critically dependent on national government policies, the approach would have to be tailored to each country. Thus, affiliates would be required in each major target market.

**Affiliates must be given a great deal of autonomy.** Because the market and public policy conditions differ so greatly among countries in Europe, affiliates need the freedom to tailor their marketing strategy to the local scene. Northern Telecom reorganized to give as few layers of hierarchy as possible, and

introduced a loose reporting system, mainly based on financial controls. Strategy development is left mostly to affiliates.

**It is possible to marry the French and Canadian cultures.** Most of the affiliate's staff are French (perhaps 95%), and many of the rest are not Canadians. While the affiliate is felt to have a French business culture, company politics are seen to be less important than in many French companies. There is also greater openness and willingness to question the way of doing things and to strive for improvement. These latter characteristics, which are associated with the Canadian and U.S. business culture, are appreciated by French staff. Nevertheless, French staff have a greater tolerance for ambiguity than many Canadians are comfortable with. Canadians may become frustrated about not getting a clear yes or no.

**Be patient in building the business in France.** In sectors where political considerations are important, Canadian companies must bide their time and take the opportunities when they come. While waiting to develop sales to French companies or government, U.S. and Canadian companies may provide easier targets and give a good base workload. Then, it can be a good idea to target prestigious French clients to generate publicity. But beware – crowing about successes can excite local jealousies and be counterproductive, particularly when political sensitivities are involved. With patience, companies can even win business in the public sector. French nationalized industry, while more extensive than in many other European countries, has relatively loose controls. As a result, Canadian companies should not assume that they will buy only French – some have an independent streak.

**The political dimension cannot be ignored.** When doing business in France, issues can quickly find themselves in the political arena. Often this will involve concern about French jobs. Companies seeking a position in the French market are expected to make a commitment to the country. This may involve seemingly unrelated trade-offs, such as the commitment to establish a manufacturing facility in return for relaxation of protected markets.

**Canadians are viewed positively in France.** When the French talk of Canadians they frequently mean Québécois, and they have little awareness of and no view on English-speaking Canadians. Even with French-speaking Canadians, language can be a problem. The use of *tu* rather than *vous* can give an unintended impression of overfamiliarity.

## Ogilvie Mills

**France is a country that gives extensive rights to employees.**

*Canadian operations*

Ogilvie Mills is one of Canada's largest flour and gluten millers and is 100% owned by Labatt.

*French activities*

The extension of Ogilvie's activities in France was more by chance than by planning. In 1988, Rank McDougall, one of the three shareholders of Tenstar Aquitaine, a small French mill, retired from its holding. Rank McDougall was at the receiving end of a hostile bid and retreated from all its overseas activities. The two remaining shareholders, Les Grands Moulins de Paris and Uncac (an agricultural co-operative), looked for another partner. Each partner contributed to the venture: Les Grands Moulins was processing the wheat, the agricultural co-operative was assuring supplies and Rank McDougall brought technology to further refine the flour. The new partner would have to take Rank McDougall's place and bring similar technologies.

The search for a partner who would bring technology to refine the process of wheat crushing was heightened by the trend in the gluten market toward more value-added products. Also, the existing group did not have the capacity to invest in new technology development from scratch.

There are not very many mills in the world that produce starch from wheat on a large scale. The largest starch producers are in North America, where most starch is produced from corn, whereas in France starch is produced from wheat, as well as corn and potatoes. Ogilvie was one of the few that had an advanced technology to process wheat flour.

Ogilvie agreed to participate, but with a majority stake of 50.5%. Uncac and Les Grands Moulins de Paris share the rest of the equity. The advantage of the deal for Ogilvie Mills was a foray into Europe with a ready-made production facility. The assumption was also that the market for starch would move in Europe toward a maize base in which Ogilvie had definite strengths.

*Lessons to be drawn*

**The EC context can be very complex.** The Canadian buyer came into Europe without any previous knowledge of Europe and, in particular, of the special difficulties linked to the EC Common Agriculture Policy. This created friction given that the management in the French company had to explain and justify things that were being done routinely until then.

**France is a country with strong social protection.** Another source of friction is the protective legislation in France on employees' rights and union powers. The type of employees' demands also surprises Canadians. For example, the unions have, by law, a budget for leisure activities and have an important say in the layout of premises. Holidays are much longer in France – five weeks minimum. Social security payments are heavier than in Canada and so are the redundancy payments. French employees have the right to ask for an advance

on their salaries and employers cannot refuse it. Another example of the power of unions is illustrated by the fact that the general manager had to announce Ogilvie's takeover to small groups of employees, short-circuiting the unions to prevent them from placing conditions on the deal that would have added difficulties to the negotiations. North Americans are often shocked to realize that France is a country with an elaborate social and worker protection system.

**Staff exchanges were hindered by language differences.** Exchanges of staff are infrequent. They tend to be in one direction from Canada. There is only one engineer from Canada in the French company. The engineer will help develop new products for two years, a period that allows integration with the operation.

Exchanges between the French and Canadian operations are not easy because the French don't speak English and Ogilvie is an English-speaking organization. The Canadian president of the French operation does not speak French.

However, exchanges are viewed favourably by the French. The French are always surprised by the warm personal welcome they get in Canada.

**The Canadians brought in more precise financial tools.** Ogilvie Mills brought in more precise management tools, particularly in cost accounting where the French practice was to use standard cost factors rather than real costs. Although the financial reporting is a much heavier burden on the French than they're used to, the task has been eased by computers.

**Canada is viewed very favourably.** The first news that the French operation was being bought with a majority stake by a Canadian group was viewed positively by staff. Canadians, and particularly French Canadians, are viewed as lost cousins coming back home. The staff was also relieved to know that a large group was taking over and saving their jobs. But some of this positive feeling has been spoiled because know-how transfer has been slower than forecast and the relationship with Canada has been punctuated with misunderstandings and a lack of adaptation of the Canadian management to the French ways. For example, Canadian management refused to receive delegations of employees, which is against custom and the law in France.

For relations with clients, the acquisition by Ogilvie Mills was seen very favourably and was used extensively in marketing. Ogilvie Mills is a prestigious name in this business.

## Ogivar

**Differences in business practices can be ironed out only by meeting face-to-face. Be prepared for large transatlantic travel costs.**

*Canadian operations*

Ogivar is a Quebec-based computer manufacturer. Its main product lines include an electronic tagging system for shops and a monitoring service for elderly people. Ogivar has also been successful in selling computer systems to the Canadian government, but it is a finite market. Ogivar had to look elsewhere for growth.

*French activities*

Ogivar developed some activities in the United States, but suffers from an image problem and manufactures under other brand names. In the meantime Ogivar developed a new product line that combines macro and micro characteristics. This line had to be marketed under Ogivar's name. France seemed an obvious market to try because of the language similarities. The first attempt was made with an agent. Unfortunately, the level of commitment from the agent was insufficient given that he also deals with a number of competing products. Then came Mr. Solaro, an experienced computer system marketer in France. He approached Ogivar to set up a joint venture to distribute this new line of computers. At first, Ogivar resisted committing to a joint venture, but in the end was convinced by the advantages a dedicated distributor would bring to selling and maintaining the systems. This new venture in France was the first step to a wider strategy for Europe. Plans include setting up an assembly plant in Europe to counter the perceived risk of future protectionist effects, as well as to take advantage of opportunities stemming from the establishment of the Single Market.

*Lessons to be drawn*

The venture is barely a year old, but there are some lessons already. These lessons are drawn from the French partner but they point out to Canadians the sensitivities of future partners.

**It will help relations with your French partner if you have done some homework.** The Canadians were perceived to know nothing of Europe. Because Ogivar had a few contracts in the U.S.S.R., Yugoslavia and Morocco before trying to enter the French market, it assumed that business practices in these countries were the same in European countries. This led to a number of misunderstandings about ways of doing business and costs involved.

The French feel irritated about having to justify what they consider basic and the Canadians probably have a latent suspicion that the wool is being pulled over their eyes.

**Costs are higher in France than in Canada.** Significant differences between France and Canada were noted for the following items.

- Salaries are higher in Paris than in Montreal. Technicians find out about it during exchanges and although these differences can be explained by the characteristics of each job market, it is never completely rationalized to the lesser paid side.

- Employers' liabilities regarding contributions to social security are much heavier in France.

- Exhibiting at international fairs is much more expensive in Europe than in North America.

**Variations on foreign exchange can kill your margins.** It is important to take out insurance on foreign exchange fluctuations. For example, an 8% margin is quickly eaten up by a 15% variation in exchange rates. Companies also have to accept contracts in ECUs.

**The Canadians follow a different financial philosophy from the French.** The definition of a good financial return seems different on both sides of the Atlantic. Canadian businesses are perceived to follow their U.S. counterparts in their short-term philosophy.

**The time zone difference can hinder communication.** Because of the time difference between France and Canada there are few hours during which the Canadian and the French partners can communicate. It is vital that each side has dedicated personnel who accept working hours of business that overlap with the other side.

**Face-to-face meetings can solve difficult questions.** For serious problems, it was found best to travel to France to discuss issues face to face.

**Quebec is a favourite partner.** For the French it is an advantage to be able to deal in French. For this reason, Quebec is a favourite partner.

## Case Studies in Germany

| Company | Sector |
|---|---|
| ♦ CAE Electronics | Flight simulators |
| ♦ Canadair | Business jet manufacturing and servicing |
| ♦ Canadian National Railways | Rail transport |
| ♦ Canspect | Sourcing and inspection service |
| ♦ Royal Bank of Canada | Corporate and retail banking |
| ♦ Trench Electric | Electrical supply equipment |

# CAE Electronics

## Technical cooperation but independent decision-making has proved a successful mix.

*Canadian operations*

CAE Electronics is one of the few companies worldwide that manufactures flight simulators for military and civil airplanes.

*German activities*

In 1961, CAE Electronics was awarded a contract from NATO to build and maintain flight simulators for Star fighter planes in all NATO countries. The contract was given to CAE as a Canadian company and was part of a non-official compensation for the fact that Canada had troops stationed in Germany without receiving any financial help from NATO. Germany was chosen as it is centrally located.

In Germany, 80% of the flight simulator activities are in the military field and CAE has started to develop flight simulators for civil aircraft.

The German operation also includes activities in office communications. This sector was developed in the 1960s with technology transferred from the parent company. Later, this part of the business was abandoned by the parent company in Canada, but remained active in Germany. Whereas the flight simulators are sold and maintained all over Europe from the German base, the office communication activities are restricted to Germany. This is because of certification differences among European countries, which oblige telecommunications companies to develop different products for every country.

*Lessons to be drawn*

**Look as German as possible.** Until 1969, all the management team was Canadian. But it became very clear that because of the close relationship a company has to build with government to secure business, the top management must be German. When pitching for business, CAE can use the argument that although it may have a Canadian parent, it provides jobs and pays taxes in Germany.

**German belief in the superiority of their own technology is a big obstacle.** Another reason for trying to appear as German as possible is the mistrust of non-German technical products. Although CAE is a world leader in the field of flight simulators, it will never reveal the Canadian origin of the technology in Germany. In the office communication area, CAE almost hides its Canadian origins. Only for some particularly large contracts, where CAE Germany had to show financial strength, has it been useful to reveal that it is part of a large group.

**Close ties and independent decision-making mix successfully.** The German and Canadian operations have numerous opportunities to work together.

Links with the parent company are very close for technological developments. All the laboratories are in Toronto. CAE German technicians are regularly in contact with their counterparts in Canada.

Other regular links are forged with the monthly financial reporting and the biannual budget forecast. Differences in German and Canadian accounting procedures have been easily overcome. CAE in Germany is an autonomous profit centre and once budgets have been approved, total freedom is left to local management to implement its forecast.

Marketing proposals are sometimes undertaken together with the support of the Canadian parent company or with other subsidiaries of the group. For example, CAE Electronics recently bought a simulator company in the United States that serves the U.S. Air Force and CAE Germany was brought in on some bids.

**Good working knowledge of English does not preclude misunderstandings.** Problems arise because of the need for bilingual staff. When CAE first set up in Germany, the shortage of English-speaking German staff was counterbalanced by hiring a large number of Dutch staff who commonly spoke English. Nowadays, the ratio of Dutch staff has diminished as the new school generation in Germany is taught English systematically, but misunderstandings may still occur because of language differences.

**German staff are not mobile.** One issue of friction is the mobility difference between Canadian and German staff. CAE finds that there is no problem getting Canadian staff for several months in Germany. However, asking German staff to go to Canada is very difficult. For anything more than a three-week stay, German staff simply refuse or demand exorbitant conditions – frequent flights back home, transfer of families, expensive housing in Canada. Another unpleasant consequence of sending German employees to Canada is that they often return with comparisons of living standards and ask for more benefits from their German management! CAE does not believe that exchanges of staff are useful and have stopped them altogether.

Generally, German staff are believed to be much more attached to their routine than Canadians. They also do not perceive it as an advantage to join a foreign-owned company that can give them the opportunity to earn experience abroad. Being a foreign employer is a handicap in the recruiting process.

## Canadair

**The legalistic environment means that people take a long time to make decisions.**

*Canadian operations*

Canadair manufactures and maintains corporate jet airplanes. After having been taken over and bailed out by the Canadian government in 1982, it was purchased in 1988 by the Bombardier group.

After the acquisition by Bombardier, the group was structured in the following way: a manufacturing division builds and sells all the models and spare parts to four sales and maintenance organizations, which are independent for each program or family of airplanes. The four programs are: Challenger, regional jets, military and surveillance.

With the subsequent acquisitions of Shorts and Lear jet, cooperation between Canadair and the newly acquired companies is slowly taking place.

*German activities*

In the 1970s, Canadair got into a distribution agreement with TAG, a Middle Eastern distributor for the Challenger program. The sales prospects looked very promising, but the company had to be able to offer a maintenance base closer to the Middle East than the Canadair maintenance base in Connecticut. Indeed, maintenance is a very important feature of the sales pitch of a private jet. At the same time, it had a number of clients in Europe and a base there would mean the company could maintain U.S. planes in transit in Europe.

Canadair needed to have its own maintenance base. It was felt that a third party would not have the same interest in ensuring top quality maintenance. Therefore, Canadair decided to invest directly in a maintenance operation in Europe.

The Dornier base was found to be the most compatible. Canadair had longstanding relations with Dornier and the two companies had collaborated in a number of programs. Canadair also could not viably set up a fully fledged maintenance operation in Europe and had to subcontract mechanics while overseeing the process. Canadair knew that it would get the right quality of subcontracted mechanics from Dornier.

For a number of years this operation was losing money because the Middle East did not buy as many planes as expected. But in 1984 a breakthrough occurred with the sale of seven Challengers to the German government.

With the opening of Eastern Europe, Canadair in Germany finds itself well placed to serve these markets. Jets tend to be a justifiable expense for companies and governments.

*Lessons to be drawn*

**It is vital to speak German.** One of the most important assets when trying to enter the German market is being able to speak German. As Canadair serves clients all over Europe, all its employees speak several languages. The effort is much appreciated by customers even though the international language of aviation is English. A considerable training budget is spent on language courses and customer relations training.

**Look as German as possible.** It is important to merge as much as possible into the German business landscape. Staff must all be German and the company must look German to outsiders.

**German business is a very legalistic environment.** Business practice is very legalistic in Germany, and it is essential to hire the right lawyer and to be sure that the lawyer is working on your side!

Because the business environment is very legalistic and contracts are rarely renegotiated, Canadian businesspeople should take extra care before signing any contract.

Keeping your word is the best demonstration of excellence a company can provide to German clients. Companies must be careful before committing because there is no flexibility once a commitment has been given. Companies earn respect by being firm in their statements and abiding by them.

**Beware of internal European customs regulations.** Trading spare parts across Europe is immensely complicated because of the number of borders to cross and the bureaucracy involved.

**Higher costs should be expected.** Staff costs are higher in Germany than in Canada. Also, the corporation tax in Germany is 65% to 70%.

**Staff exchanges do not work.** Canadair has never implemented staff exchange programs. The staff would not welcome it. Bavarians are reputed to like their everyday comfort!

**Relations are formal.** Relations with employees and business partners are always formal. Never call anybody by their first name. They will be hurt. There is a very definite line between friendship and business.

## Canadian National Railways

**Personal visits are essential to marketing products or services.**

*Canadian operations*

CNR is the state-owned railway. It holds a major market share in Canada alongside its smaller competitor, Canadian Pacific Railways.

*German activities*

Even though CNR's transport activities are mostly on Canadian soil, it is important to try to tie shipments to its network when the company decides to ship goods from Europe. Twenty years ago, CNR had agents in all European countries. Generally, these agents were forwarding agents.

There are two distinct areas in shipping: containers and conventional. Container transport is a price-cutting business where there is little room to add value. However, conventional transport, which includes everything that is not packed in a container, offers scope to widen the services to the exporter. Because of the tailor-made aspect of this kind of transport, the exporter gives more attention to the components of the transport package. For CNR it was important to raise the awareness of its service among primary purchasers of conventional transport: manufacturers exporting to Canada. CNR agents try to perform that task but most of their contacts are with forwarding agents. Therefore, the first representative of CNR was sent to Frankfurt in 1970.

From Frankfurt, the newly established team of three were to cover West Germany, the Netherlands and Scandinavia. After a few years the most important market proved to be West Germany, and in 1976 an office was opened in Hamburg. Scandinavia was then covered from Glasgow, and the Netherlands came under CNR in Antwerp. In Germany, the CNR office markets both to steamship companies and directly to exporters. The CNR delegation in Hamburg will also monitor potential business originating from Eastern Europe.

The German operation is left under local direction. Once or twice a year the German operation will meet in London with its European colleagues. London and Montreal management also visit Germany as the need arises.

*Lessons to be drawn*

**Relations with people are formal.** Christian names are not used in Germany. Even after having known people for 20 years the address remains formal.

When meeting for business, Germans talk only business. Social chats about football or the weather are regarded as a waste of time.

**Personal visits are important.** It is important in Germany to call and visit people. Presenting a new service over the telephone or by mail is not enough. German businesspeople like to take time over meetings.

If a German client gives a company some time, the company must have something new to offer. Social visits to keep in touch are not appreciated. Visiting clients twice a year is sufficient.

A brochure describing the business is expected and read carefully! The brochure must be written and designed with this in mind.

**Decision-making can be slow.** Generally, decisions are made much more slowly than in North America or even the United Kingdom. Be patient!

**Germans do not like to admit to mistakes.** When a German businessperson makes a mistake, it is important to save face. This is especially true if the mistake is apparent to a foreigner. Canadian partners should be sensitive to this, and look for ways for a German partner to save face.

**Published market data is scarce.** Although 20% of German manufacturers account for 80% of exports, it can be very difficult to place names in front of official statistics. Moreover, marketing information is scarce in Germany. Companies use the grapevine to find out who does what.

**Speaking German is a must.** CNR found it invaluable to have German employees in the Hamburg office as customers find it more comfortable to deal with nationals.

For non-German employees, it is essential to master the native language because although most German business partners understand English, they feel more comfortable finalizing a deal in German. When foreigners make an effort to learn German, it is acknowledged.

**The Canadian embassy is helpful when starting out.** Help from the Canadian embassy was very useful in the beginning to get names of German industry and commerce contacts. After that it was up to CNR.

**Continuity must be preserved.** Germans respect the continuity of staff. High staff turnover is frowned on.

**Germans use contracts for everything.** Doing business in Germany is very contractual. Everything is done in writing and your German counterpart will not hesitate to get legal advice or to follow up with court action. Companies need good legal and tax counsel from the outset.

Contracts for utilities are for more than five or ten years and cannot be broken. Telephones, telexes or fax equipment must be leased for at least five years.

Employment contracts are very rigid. Canadian companies must be sure they understand all the clauses.

## Canspect

### Set up now: Eastern Europe is opening up and the EC closing.

*Canadian operations*

Canspect has been operating for three years and is an offshoot of another company that was established in 1979. Canspect is an inspection company that performs quality and quantity control of procurements on behalf of buyers and sellers. It also advises clients on project expediting.

Canspect operates from its headquarters in Ottawa and through agents in 45 countries. Its other offices are in Düsseldorf and Cairo. It is also establishing a joint venture company in Kuala Lumpur.

*German activities*

The reasons for opening an office in Germany were the result of both long-term strategic thinking and chance. The long-term development of the company meant a location central to Europe and the Middle East was needed, because Canspect sees a large development potential on the existing client base. A good opportunity to set up in Düsseldorf arose when a large inspection company based in this area moved its office. This allowed Canspect to hire experienced staff immediately. All this was heightened by the opening up of Eastern Europe, which prompted Canspect to set up in Europe right away. In addition, Germany presented the advantage of being in the EC, which could be helpful in the future if 1992 meant increased protectionism.

The German office deals with buyers in the Middle East, Africa, Europe and Southeast Asia purchasing goods in Germany or in Europe. The operation will gradually be spreading its activities to the rest of Europe.

*Lessons to be drawn*

**Senior people were needed to conduct the market research.** To decide where the market potential was in Europe, two senior executives of Canspect conducted the initial research. Canspect felt that it was important to have senior people of the company assessing market potential. When the operation was set up in Germany, more resources were committed to research the market and included some of the new German staff. Published data was found to be very scarce, thus requiring Canspect to put more effort into research than expected.

**Speaking German was indispensable to market share growth in Germany.** The solution to this problem was hiring German staff who could relate to headquarters in English. Anybody working in this field would have to speak English anyway, so ensuring contact this way was not a problem.

**Being able to speak German makes it easier to hire the right people.** The major issue that delayed setting up the operation in Germany was the difficulty of hiring experienced staff. From Ottawa, Canspect could not afford to train new staff. The difficulty was exacerbated by the language barrier. Therefore, when an existing German inspection company moved, Canspect grabbed the

opportunity, first, to fill the market gap left and, second, to rehire the staff it knew had the right experience.

**A specialist should be used to sort out taxation matters.** Double taxation issues can be complex and Canspect found it worth while to hire a specialist in this field.

**Don't hesitate to contact the local Canadian consulates and embassies.** Canspect found the help of the Canadian consulate in Düsseldorf invaluable. It was able to help in practical matters of the installation. From the Canadian embassy, Canspect was able to get trade statistics that helped the company devise its long-term strategy.

**Let the subsidiary have some independence.** It was found best to let the management in Germany run the operation independently right from the beginning, even though the subsidiary is not treated as a separate profit centre. This is because most of the business comes from Ottawa. The subsidiary is run by the German management, which also has a free hand in its marketing activities in Europe.

**Companies need to adapt to the local business practices.** When looking for German manufacturers to supply procurements, Canspect found that German business is run in a much stiffer way than in North America. Deadlines are expected to be met much more strictly and bargaining is not as common.

**Higher costs were expected.** By far, the biggest difference in cost is salaries, which are much higher in Germany than in Canada. The second biggest difference is communications (telephone and telex) and third is rent levels.

# Royal Bank of Canada

## Demonstrating continuity in your strategy is the best way of being accepted.

*Canadian operations*

The 123-year-old Royal Bank of Canada is the largest bank in Canada and is one of the top five in North America. It is a full-service bank with retail, corporate and investment capability.

*German activities*

The Royal Bank of Canada was set up in Europe in 1908 when it opened an office in the United Kingdom. This first location was chosen because of the historical links between Canada and the United Kingdom. Then in 1919 an office was installed in Paris to operate the payroll of Canadian troops located there after the First World War. It was only in 1969 that an operation was launched in Germany. The bank had been slow to set up in Germany, but from the late 1960s it became evident that with the intensification of trade links and the growth of the German economy, such a move could not be avoided any longer. It was also clear that, although the Netherlands and Scandinavia could be served from London, the German market had to be served in Germany. Germans would not go to London to buy corporate financial services.

In 1972, the bank started by opening a representative office in Frankfurt. Then between 1974 and 1979, the bank bought, in three stages, 100% of a private German bank with two main activities in investment management and stock trading. In 1979, the bank also bought a Hamburg bank described as a trading bank, the activities of which were mainly dealing with letters of credit, collections and trade finance. In 1983, all the activities were consolidated under the Royal Bank of Canada AG name.

In 1988, the bank decided, in line with the global international strategy, to concentrate on corporate banking in Germany. As a result, the domestic private banking and securities business was sold to a Dutch bank. All remaining international private banking not sold to the Dutch bank was regrouped in the bank's office in Switzerland.

*Lessons to be drawn*

**Being a foreign company is a disadvantage.** It is tough to be a foreign provider of financial services in Germany. Most corporations would rather buy German. Because of a general 'buy German' mentality, a new entrant is more likely to get its first contracts from German companies with international activities. The commitment to the German market must be much heavier than to other markets. A bank must prove that it has a long-term commitment to the country and simply spend time there before it can expect to be asked to bid. It can take up to five years to get any business in Germany. That means that new entrants will often have to restrict their product offering to be able to support the start-up phase.

**German corporations do not shop around for financial services.** Germans are very loyal to their bankers, even at the corporate level. This is partly because banks have significant share ownership and directorship links and

partly because of a low receptiveness to new ideas. As a consequence, corporations are less tempted to switch banks because of price considerations. They will be prepared to pay more with their usual bank to keep the relationship. It is only by offering a superior product or a different product that clients might be tempted – and this is only after careful and lengthy consideration. Because it is so difficult to take clients away from local banks, the best entry route is serving them abroad first. However, once a client has moved to you, the client will stay for a long time. "A franchise in Germany takes longer to build, but it is worth a lot more."

Because of their loyalty to their financial services suppliers, German corporations rarely shop around, so the bank must constantly take the initiative. However, these initiatives are always received with great politeness and a bank can be direct in its approach.

**Quality equals reliability and continuity.** When German corporations talk about the quality of a financial service they mostly mean reliability. Technically, the German financial market is rather unsophisticated – standard conditions from banks are accepted without any bargaining, treasury management is very cautious and swaps are often forbidden by company boards.

Another factor influencing the rating a company gets in Germany is continuity. Continuity encompasses not only the time the company has been active on the market, but also the ability to retain the same employees. Customers are suspicious of high employee turnover.

**German staff are less mobile.** Staffing for foreign banks in Germany is more difficult than in North America. Germans do not consider it an advantage to work for a foreign bank. On the contrary, they prefer a German bank where the future is perceived as more predictable. The restructuring of North American (and other foreign) banks in Germany over the past five to ten years have concerned employees. Travelling is not seen as an attraction of the job and the quality image of foreign financial services is not as high as their German equivalent.

**Higher margins are needed to survive in Germany.** A new entrant in Germany must be prepared to bear extra costs compared with operations at home. Staff costs are higher because staff have to be bilingual, the income tax rate is 56% and capital tax of more than 1% applies regardless of income. So, either the new entrant has a specific strength that none or few German companies have or the German operation brings business to the parent company. In any case, notwithstanding launch costs, the margins will have to be higher than at home to earn the same return or, more likely, returns will have to be lower.

Because of the insularity of the clients and local competitors, the Royal Bank had to build an operation that is uniquely destined to serve Germany.

**Corporate entertaining is not expected.** Networking in Germany is relatively unknown. Businesspeople talk business during working hours and are rarely expected to socialize with business contacts.

## Trench Electric

**Look as local as possible.**

*Canadian operations*

Trench Electric supplies heavy-duty transmission equipment to the electrical power industry. The manufacturing facilities are in Canada and the corporate sales office in Germany is responsible for coordination among the three corporate sales units covering the global market.

The company has recently been acquired by British Belt Asbestos, but is considered a Canadian company because it started with a Canadian invention for a new type of coil reactor.

*German activities*

The market for this particular technology is mostly in Europe. The North American power distribution sector works with a different technology. Historical market leaders such as General Electric and Westinghouse are withdrawing from this business while more recently, major European companies are starting to serve the North American market out of branch offices in the United States and Canada.

Trench first appointed an agent in Germany 21 years ago. However, it quickly became apparent that the agent was not giving full attention to Trench Electric's products.

For these reasons, a sales office was set up in Germany to cover Europe and the rest of the world. Frankfurt was considered a good international airport to use as a pivotal point for marketing and maintenance activities.

In 1989, Trench Electric acquired the remaining European competitor and established a dominant market position in Europe. All other competitors had previously disengaged because of the availability of highly specialized companies supplying this market niche.

*Lessons to be drawn*

**Staff exchanges do not work.** Exchanges were tried, but judged unsuccessful and too expensive. To help the integration process of the newly acquired company, Trench Electric spent $100,000 in travel costs. The feedback from the exercise was negative, as each side spent its time criticizing the other side's methods. The most successful formula so far has been to take managers to a neutral place, away from their respective offices, to spend a week of brainstorming and getting to know each other. This latter solution has always been well received by participants and is cheaper, with a cost of between $20,000 and $30,000.

**Communication lines are kept simple.** A few people link up between the German sales office and the Canadian manufacturing facilities. Everybody does not need to speak to everybody else.

**Companies should not ignore European product requirements.** The image of Canadian and North American electrical power products is generally low in continental Europe. Ignorance of European product requirements, which can differ markedly from established North American standards, has contributed greatly to this situation. Therefore, it is vital to appear as local as possible. All the staff dealing with Germany are German. Similarly, every country market is dealt with through a national.

## Case Studies in the Netherlands

| Company | Sector |
|---|---|
| ♦ Arlink | Industrial benches |
| ♦ Bata | Footwear |
| ♦ Bomem | Gas spectrometers |
| ♦ Noranda | Timber products |
| ♦ Periphlex | Computer monitor screens |
| ♦ Romet | Gas meters |

## Arlink

**Although the image of Canadian business is neutral, positioning yourself as an international company is viewed positively.**

*Canadian operations*

Arlink manufactures industrial benches destined for the electronics industry. The system is modular and can adapt to the flexible production systems in this industry.

*Dutch activities*

After comprehensive market research, Arlink decided to market its products in Europe, as they are unique in the market. Arlink started by selling through dealers, but found that communication was often difficult because of language differences. Dealers in France and Germany did not speak English. For a while Arlink hired interpreters to try to make it work, but this approach proved unsatisfactory. The most important markets are France and Germany, hence it was decided to set up in the Netherlands at the border with Belgium. Arlink needed an office in Europe to work with all the dealers.

Another reason for setting up an operation in Europe was the expense of shipping small quantities of equipment from Canada. Many contracts were for small quantity orders. Arlink needed a warehouse in Europe as dealers do not generally stock equipment and would never stock for a new product.

In the Netherlands, the Arlink operation is a centre of marketing, a warehouse for Europe and a place to assemble the equipment according to European standards. It also provides follow up after sales, a task that is much easier to accomplish from the Netherlands than from Canada.

*Lessons to be drawn*

**It is easy to recruit linguists in the Netherlands and there is no need for Canadians to learn Dutch.** The Dutch market is very small and everybody speaks English. Dutch people do not expect foreigners to learn the language to do business.

**The Netherlands is a practical logistical centre for Europe.** The port of Rotterdam is the largest port of Europe and connects with the Rhine, the busiest waterway in Europe. The country is also within easy driving distance of France and Germany.

**The Canadian-Dutch relationship is very smooth.** All staff at Arlink Europe speak English and the Canadian director is of Dutch origin. The Dutch operation consults constantly with the Canadian operation over technical specification of the products and orders. One of the vice-presidents in Canada is also a director of Arlink Europe and visits three times a year for one or two weeks. Monthly financial reporting is standardized. There is no exchange of staff.

**Quotes are never considered final.** Canadians are straightforward and may find it baffling to deal with Europeans who are never as direct. The French have proved to be particularly difficult in this respect. When selling in Europe, be aware of the practice of bargaining. In the United States and Canada, people in the same industry do not bargain to the same extent. They ask for a quote and decide based on that. The European approach has implications for the way to answer bids.

**In business, the Canadian image is neutral.** In the beginning, to build confidence with customers, Arlink Europe emphasized the Canadian operation to show that it had the backing of a large group. Although most of the staff is Dutch, Arlink Europe does not consider itself a Dutch company, but a European company.

**In the Netherlands, international companies have the advantage in recruitment.** The Dutch regard employment with international companies positively.

**European technical standards, tastes and duties are not uniform.** Canadian products had to be adapted to the metric system rather than the imperial system. Electric fittings have different standards in every European country. Colours also have to be adapted. Arlink had to redesign its colour scheme to suit the European fashion of matching factory environment to logos.

Customs and excise duties from countries outside the EC can be very high, for example, in Austria and Israel.

**Nationals should be used to market in their own countries.** Business practices vary among European countries. For example, Arlink found that Germans do not like to travel while the French do. Even within a country there can be regional differences. In the Netherlands, businesspeople use first names easily, although the north of the country is more formal than the south. All these subtle aspects of doing business in the different countries convinced Arlink to base in the Dutch office foreign nationals responsible for marketing in their own country.

**Costs such as warehousing, salaries and taxes are higher in the Netherlands than in Canada.** The constraints on hiring and firing are much greater in the Netherlands, which Canadians sometimes find difficult to believe. Another different practice is that in the Netherlands any employee is entitled to be reimbursed the cost of public transport to work. Because of the high transfer cost of housing, it is common for managers to live several hundred kilometres from their office and get compensation for the travel.

**Arlink varies its marketing methods by country.** Marketing in Europe is quite effective through trade fairs, where Arlink gives support to its dealers, who are exhibiting. Other marketing tools are advertising in specialist electronics magazines and direct mail. Direct mailing is different in each country. In the Netherlands, for example, mailing does not get results – salespeople must visit and take potential customers to lunch. In Germany, a mailing has to be followed up by a telephone call.

## Bata

**Local people should run the operations in each country.**

*Canadian operations*

Bata is a shoe manufacturer and retailer. It was originally from Czechoslovakia and moved to the United Kingdom just before the Second World War, before finally settling in Toronto in 1950.

*Dutch activities*

Bata always had a strong presence in Europe. The European operation in the Netherlands was established in 1932; the U.K. and French operations were set up during 1932-34. Bata Nederland reports to a European head office in Paris.

Bata manufactures safety shoes for industrial and military use, as well as socks. It also distributes protective clothing for an American company. From the Netherlands, Bata distributes these product lines all over Europe.

*Lessons to be drawn*

**Financial reporting is centralized.** Financial reporting is standardized with weekly and monthly reports to the Canadian head office.

**Local operations are run by nationals.** As an organization, Bata believes that operations in different countries must be run by locals who are best able to understand their market. Experience has shown that joint Canadian management in a foreign subsidiary is not workable because reporting and authority structures are not clear.

**The best way to bridge cultural differences is through managers with North American experience.** Hiring locals who have experience in North America, and hence a good working knowledge of the English language, solves the problem caused by the various languages spoken in Europe and the differences in doing business on both continents.

**Social costs are high in Europe.** Every aspect of hiring personnel is more costly in Europe compared with Canada.

**Europe is a fragmented market.** Features of the market for shoes, even industrial shoes, are very different in each country in Europe. Each country has technical norms that must be adhered to and taste varies across Europe. Therefore, even if the total European market of 375 million people may appear large, it is composed of a cluster of small markets.

**The European market has a protectionist streak.** The European mentality is fairly protectionist and will always be tempted to favour a local manufacturer. Bata has been very successful in building a strong local image for its operations.

**Customs formalities still exist in the EC.** Customs formalities used to be a burden, even within the EC, but with the changes in 1992 they are slowly being reduced.

**Trade fairs are useful marketing tools.** In Europe, it is important to be present at industrial fairs both for client contacts and market research. One marketing tool used by Bata for industrial shoes is organizing 'training days' on security matters in the factory.

**Governments have an important role in the business arena.** Bata puts a lot of effort into maintaining excellent relations with government departments and European organizations on safety wear.

# Bomem

## The Netherlands was chosen as the logistical centre of Europe.

*Canadian operations*

Bomem is an 18-year-old company that manufactures high performance spectrometers used mainly in research and quality assurance. Most clients are research centres. In Canada, Bomem employs 100 to 150 people. Recently, the company was taken over by a German company, Hartmann & Braun, which produces a complementary range of products.

*Dutch activities*

Bomem's market is worldwide. One-third of the market is in Europe and it quickly became important for Bomem to have a base in Europe for marketing, as well as to support clients after the sale and during installation. All the manufacturing is done in Canada. The products are made to order with a delivery deadline of three to four months for research grade instruments and six weeks for standard laboratory instruments. The office in the Netherlands coordinates all the marketing and after-sale activities in Europe. The company uses agents, except in the United Kingdom and Germany, where Bomem has employed some salespeople directly.

*Lessons to be drawn*

**The Netherlands is the logistical centre for Europe.** The Netherlands was chosen as a European base for logistical reasons – it is somewhat at the centre of Europe, and the first director of Bomem Europe was Dutch.

**Communications with Canada work very well.** Technical expertise is in Canada and daily contact is necessary between the Dutch and the Canadian operations for technical advice on specifications required by clients and more complex after-sale support. Language is not a problem because everybody in the Dutch office speaks English. The extra cost associated with these transatlantic communications is not a problem, although recently competition has become tighter and costs will probably need to be watched. This communication with the headquarters in Canada is one of the services that Bomem provides for its clients. A large proportion of clients are university laboratories, which find it too expensive to communicate directly with Canada for after-sale support.

**Staff exchanges are kept to a minimum.** There is no real staff exchange, but engineers go to Canada twice a year to keep abreast of technical developments. In addition, every year a sales meeting is organized in Europe and one in Canada. Systematic staff exchanges would be too expensive for such a small company.

**Potential employees may have a negative preconception of Canadian companies.** In the Netherlands, Canadian companies are associated with U.S. companies. North American companies have the reputation of being tough in the way they treat their employees. A common preconception is that if an employee makes a mistake he or she can be easily dumped by the company.

This does not help recruitment. The local Bomem management finds that it must convince people that Bomem is a 'nice' company.

**Customers are neutral to the fact that the company is Canadian.** The fact that Bomem is Canadian is not an issue with the users of the machines. They are scientists who know the quality of Bomem spectrometers. In Germany, the government funds university laboratories and sometimes exerts pressure to give preference to German manufacturers.

**Dutch employment laws are much more protective of employees' rights.** A frequent misunderstanding with the Canadian headquarters, even after six years of operation in the Netherlands, is the difference in legal protection and advantages of employees, such as longer holidays. Dutch law is very protective of employees' rights and there is no way around it. The Dutch management has to convince head office that these are Dutch rules.

**It is easy to recruit people who speak more than one language.** Bomem was impressed by the ease of recruiting people who speak more than one language for its European office. All staff speak English, but some also speak French, German and Italian.

**Specifications tend to be more precise.** The Canadian operation had to adjust to more precise European specifications and deadlines. Customers expect their suppliers to stick to these specifications and deadlines.

**Canadian companies are perceived to be more interested in short-term financial returns than long-term gains.** However, the Dutch operation is a cost centre and does not have too many complications in terms of financial returns. It sends its accounts regularly to Canada in the Dutch format. In Canada, the accounts are sorted out following Canadian accounting regulations. Invoices to clients are also sent directly from Canada.

**The legal structure was kept simple.** Bomem chose to set up its operation in the Netherlands as a simple branch office rather than a subsidiary. This simplifies administration, particularly for fiscal matters.

**Customs procedures are more demanding than expected.** The numerous customs procedures that products and their associated paperwork go through always astonish Canadians. The cost of duties can be quite high. More difficult to manage is the delay that can occur since European customs are suspicious of anything that looks like a computer.

**Beware of currency fluctuations.** Canadian companies are generally very aware of the fluctuations of the U.S. dollar, but may forget to pay attention to the fluctuations of the many currencies they have to deal with in Europe. Even experienced export companies can fall into this trap. Whereas in most of the world contracts can be quoted in U.S. dollars, in Europe suppliers must quote in local currencies. Insurance products against currency fluctuations are available to protect contracted revenues, but Bomem found that they were not able to cover this risk for long-term variations.

**The business environment is relatively informal.** Dutch business practices regarding the formality of contacts and the contractual aspect of business fall somewhere between France and Germany. First names are easily used in the Netherlands.

**Bomem timed its switch from agent to its own sales force.** Bomem switched from agent to direct sales force in the United Kingdom and in Germany when its product line was large enough to support full-time salespeople in these territories. This improved the quality of technical representation, which is vital for this high-tech product.

## Noranda

**Markets in Europe are so different that they command different distribution structures.**

*Canadian operations*

Noranda is one of Canada's largest groups and includes mining and forestry. The office in the Netherlands deals only with forestry products.

*Dutch operations*

After dealing through an agent for two years, Noranda bought the agency. The Noranda office still represents other manufacturers, but the mainstream products are Noranda's plywood boards.

The Netherlands was chosen as a prime base to market to France and Germany. Noranda first had an agent in the United Kingdom, but found that the people there could not serve Europe because their staff lacked multilingual skills. The Dutch agency had the added advantage of being close to Amsterdam harbour, which is important since all products are shipped from Canada.

By contrast, plywood is sold in Italy and Spain through agents; Noranda has not attempted to establish its own operation in these countries. These markets are thought to be difficult to penetrate without a local manager.

*Lessons to be drawn*

**There are problems linked to the headquarters being so far away.** Daily contacts are made with Canada on technical specification, delivery and pricing, which adds to the overheads – a competitive disadvantage in this commodity market. Importing products from far away can also be a problem, as delivery on time is crucial in this market.

**Exchanges of staff are not seen as valuable.** There is little that the Europeans could learn given that the North American market is very different from the European. Short technical training sessions are organized when needed and deemed relevant. However, it is important for Canadian management to come to Europe to understand the market. Also, it is felt that knowing people personally helps iron out everyday frustrations.

**The Canadians brought tighter financial controls.** The Dutch subsidiary is treated as a separate profit centre and is left alone to market the products in Europe as it thinks best. Financial reporting, however, is much tighter since the acquisition of the agency by the Canadians. The company installed a weekly and monthly reporting system, which the Dutch management appreciates for its effectiveness.

**The agency is pessimistic about the normalization of standards in Europe.** Every European country has different construction standards. Even with 1992 coming, the agency is pessimistic about the adoption of a European single standard because the construction sectors are traditionally conservative. It is a

problem in a commodity market where companies compete on price. This means that the production facilities in Canada must be very flexible to meet the different standards.

**Business practices are different in each country.** For example, in France a company must wait 90 days to be paid, whereas in the Netherlands and Germany payment is cash on presentation of invoice. Another difference in Europe is the emphasis on contractual relations. The whole spectrum is represented – from Germany, which is very strict on having written contracts, to France where a telephone order is valid. The Netherlands falls in between these two models.

**Beware of test delays.** Every new product must be tested and approved by each country. Testing and approval can take up to one year for the German market.

**The Netherlands is an easy place to recruit bilingual staff.** Contrary to other European countries, companies do not have to pay a premium for people with multilingual skills.

**The effect of being Canadian is neutral.** Although Noranda is known in the timber trade, the Canadian image does not play a positive or negative role.

## Periphlex

**Regular meetings between Canadians and European dealers help them work together.**

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| *Canadian operations* | Periphlex manufactures anti-radiation and anti-glare computer screens. |
| *Dutch activities* | There is no direct investment by Periphlex in the Netherlands. The Periphlex operation in the Netherlands is an independent distributor. Periphlex considers the market in Europe too marginal to invest in. It is a relatively small company (about 50 employees) and needs to concentrate on its home market in North America. Periphlex and its present distributor in the Netherlands met at the Hanover trade fair where Periphlex was exhibiting. This agent works for Periphlex throughout the Benelux. It also has other activities developing software for the retail industry. |
| *Lessons to be drawn* | **Government approval is important.** Anti-radiation screens are quite common in the United States, where awareness of the health hazards of radiation caused by computer screens is much stronger than in Europe. The market in Europe is not yet ready and governments have even been an obstacle, despite some medically supported claims. The only other similar product is made by Polaroid and is much more expensive. The European market is slowly developing and Sweden was the first country to introduce compulsory use of low-radiation screens. In the meantime, this distributor is doing a lot of lobbying and simply must wait until the market develops.<br><br>**The relationship with the Canadian firm is distant.** For this product the distributor does not need technical help from the manufacturer because it is a simple peripheral that clips on to existing monitors. The only contact between the Dutch distributor and the Canadian manufacturer is ordering the goods. The distributor wanted more contact, even just to inquire how things are going. Since the initial deal, no other contact has been initiated by the Canadians. The distributors know that it would be too expensive for Periphlex to organize regular meetings of dealers, but they would appreciate a regular newsletter to keep in touch.<br><br>**The company needs to be flexible about country differences.** The product is the same for all European countries. The only adaptation needed was for some French Bull monitors, which have a curved screen. In this case, Periphlex in Canada responded willingly to the changes suggested by its dealers.<br><br>**Language diversity causes a problem for a small operation.** Documentation needs to be translated into a number of languages to serve a market that overall might not be that large. Because of the diversity of languages, it is also difficult to adequately monitor the quality of translations. |

## Romet

### North American standards are not accepted automatically.

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| *Canadian operations* | Romet manufactures high-performance rotary gas meters used by utilities. |
| *Dutch activities* | The market for this particular technology is increasing in Europe, but because it is an alternative product the market virtually has to be created by Romet. For several years Romet sold its products through agents. However, it became evident to the Canadian management that it was necessary to have a subsidiary in Europe to follow up on the testing and approval in each country, as well as to offer appropriate service to clients. Agents do not usually carry out all the formalities required for a product to be tested and approved to the standards of each country. Also, a good knowledge of the technical aspects of the products is needed to follow up these processes. Romet did not believe in the concept of strategic alliances because of the potential for conflicts of interest.<br><br>Setting up its own European operation did not bring too many surprises, because the Canadian management team is of European origin and Romet had a long trading history with Europe.<br><br>The Dutch operation acts as a marketing and service base for Europe, Africa and the Far East. Modifications to the gas meters are also carried out in the Netherlands to comply with local standards. |
| *Lessons to be drawn* | **The Netherlands is rated as good base to serve the European market.** From a logistical point of view, the Netherlands is well placed to reach the major French and German markets. It is more or less in the centre of Europe. Rotterdam port is the largest in Europe and the country is also well served with airports.<br><br>**Good skills are available in the Netherlands.** The Netherlands is a leading country for gas technology. Recruiting highly skilled workers is relatively easy. The Netherlands benefits from a tradition of craftsmanship combined with a high degree of automation.<br><br>**Productivity is lowered by employment inflexibilities.** Setting up a production unit was recently considered and abandoned because of the high employment costs imposed by Dutch law. This affects the productivity per dollar spent on staff.<br><br>**Government subsidies are too time consuming.** Romet tried to look at the subsidies offered by different governments but decided that there were more important criteria, such as the quality of staff. |

**Contacts with Canada are daily.** Telephone and fax bills are large but indispensable. Directors of the Canadian headquarters visit several times a year.

**Support from head office is important.** Setting up an operation in Europe is a long-term venture. The team abroad needs continuous support.

**Financial return requirements are considered short term by the European staff.** Financial return expectations are short term. The break-even time given for this operation was much shorter than a European company would have expected. Financial reporting is done monthly and is not too heavy.

**The disadvantages of being a foreign company are alleviated by using local intermediaries.** The fact that Romet is a Canadian company is not a problem when trying to get government contracts. Part of the reason is that one of the two competitors is American, and there is no national substitute available to most European governments. Also, in most countries Romet deals through local agents, so governments see some revenue going to a local company. The only country where Romet sells directly without an agent is the Netherlands.

**It is important to hire a well-known local person for a close-knit market.** The market for gas meters for utilities is rather small – everybody knows each other. To enter this market, it is important to buy the services of a well-known and respected local person.

**Technical standards will be different in each country until the end of 1992.** In each country the standards are different and the product must be tested and approved by the national official organizations dealing with these issues and the individual utilities. After 1992 the standards in this field should be the same across Europe. Generally, quality standards are higher in Europe than in North America. North Americans tend to be overconfident about their standards and think that these should be automatically accepted in Europe, which, of course, is not the case.

**Selling methods are different in European countries.** In the Netherlands, the sales force must stress the high quality of after-sale service and be technically knowledgeable. In France, salespeople must maintain a good social relationship with their clients. In Switzerland, the high quality and the high price of the product is a predominant feature of the sales pitch. In Germany, a mixture of all ingredients, except the social factor, is required. In the United Kingdom, people buy on price. In Italy, everybody is very friendly but the decisions are totally unpredictable.

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